ECONOMIC OVERVIEW
of
PRINCE EDWARD ISLAND

Department of Finance
Province of Prince Edward Island
Charlottetown

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ECONOMIC OVERVIEW OF PRINCE EDWARD ISLAND

Economics, Statistics and
Fiscal Analysis Division
Department of Finance
Charlottetown, P.E.I.

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FOREWORD

The **ECONOMIC OVERVIEW OF PRINCE EDWARD ISLAND** is a major addition to the published reports of the Government of Prince Edward Island. It provides a comprehensive review of the Island economy in a historical context. It is intended to be a valuable source of information on labour markets, industrial trends, incomes, and macroeconomic trends.

The **OVERVIEW** was prepared by the Economics, Statistics and Fiscal Analysis Division of the Department of Finance. If you have any suggestions, comments, or questions on the **OVERVIEW**, the Division's staff are ready to assist you.

Gilbert R. Clements

Gilbert R. Clements,
Minister of Finance

PREFACE

Some years ago the Economics, Statistics and Fiscal Analysis Division began to produce written reports which examined various aspects of the Prince Edward Island economy. These reports consist of an annual discussion of the previous year's economic situation, which is included in the **Annual Statistical Review**, and selected topics pertinent to Prince Edward Island, which form the **Economic Trends** publications.

This **ECONOMIC OVERVIEW OF PRINCE EDWARD ISLAND** is largely drawn from those studies. It has been prepared in view of the large demand for a general background document on the Prince Edward Island economy for which the Division receives many requests.

The report itself has been put together in large part by Roy Spence, a member of the Division. He also prepared much of the text and the diagrams. Ada Lowther and Tracie Gormley are responsible for word processing and document preparation. Janice MacDonald assisted in editing the report. The Queens Printer printed the document.

I trust the study is useful to the reader in attempting to discern the pattern of development of the Province and its economic situation today as we move into the closing decade of the twentieth Century.

John R. Palmer
Director,
Economics, Statistics &
Fiscal Analysis Division

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Prince Edward Island in the North American Context

1. INTRODUCTION

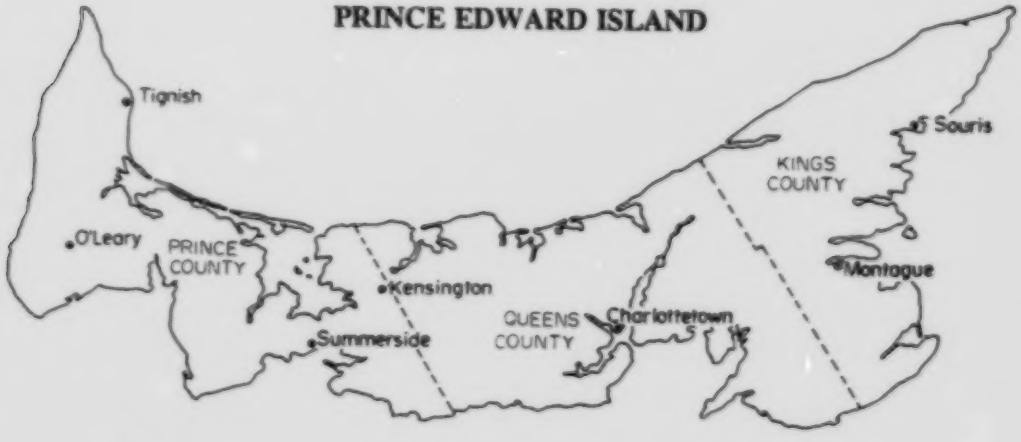
The Economics, Statistics and Fiscal Analysis Division prepares a variety of reports on the economic situation of Prince Edward Island such as the **Annual Statistical Review**, **Quarterly Statistical Review** and **Economic Trends**. These reports provide information and commentary on current economic conditions and provide an analysis of specific subjects pertaining to the Prince Edward Island economy.

The purpose of this report is to provide a general overview of the economy of the Province in response to the widespread need for a general guide. As we move into the last decade of the twentieth Century a background document on developments in the Prince Edward Island economy through the Century appears particularly relevant.

The review looks at the growth of the population on Prince Edward Island during the Century and examines recent demographic trends. The labour force is then studied, as well as the related issue of unemployment. It then describes the structure of the economy today and analyzes economic development from a sectoral perspective. Income growth is examined next, both by source and with respect to its changing distribution. The section that follows examines the importance of government to economic development of the Island. Moving up to recent economic events, the macroeconomic forces at play at present are examined in some depth. Finally, an interpretation of the Island's economic situation is attempted as we move into the closing years of the Century.

The **OVERVIEW** has been written using the data available up to 1989 and many statistical series are subject to revision. The reader is cautioned that specific statistics are likely to be amended during future months and years.

PRINCE EDWARD ISLAND



2. POPULATION

a. Population Growth

Prince Edward Island is Canada's smallest province both in terms of population and physical size, with a total land area of 1,399,000 acres (5,660 sq. kms). Its population forms only 0.5 per cent of the Canadian total and in 1986 it measured 126,646 persons. By June 1989 it had risen to 130,000. The small size of the Province and its close proximity to its Maritime neighbours has meant that population movement between the Island and other provinces has been and continues to be very high. This is especially true of the young adult population of whom approximately 20 to 30 per cent habitually leave the Island during their lives. The province of Ontario is also a large attraction for the Island's population.

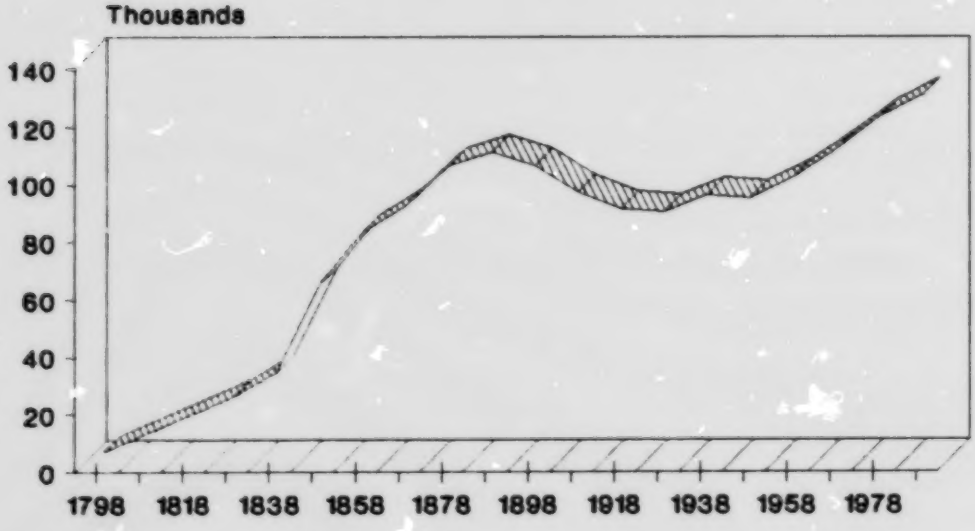
The mobility of the population has meant that the growth of the Island's population has been and continues to be determined to a large degree by the economic fortunes and misfortunes of the Province.

Looking back into the history of Prince Edward Island, the number of people on the Island was very modest in the first half of the eighteenth Century while under French rule. From approximately 500 in the 1730's it peaked at about 5,000 in the late 1750's just prior to the time of the Acadian deportation, at which time the numbers declined sharply. Under British rule initial growth was very slow and by 1798 when a Census was undertaken it had regrown to only 4,372. Population records for 1827, 1833 through to 1871 indicate that very rapid population gains took place in this period, based largely on immigration from Scotland, England and Ireland.

The population of the Island is charted from 1798 through to the present in Diagram 1. By the time Prince Edward Island joined Canadian Confederation in 1873 the population numbered 98,000. Growth continued, albeit at a more modest pace, until 1882 when the population reached 109,000. This marked the end of the growth of the Island in the nineteenth Century. The three decades leading up to Confederation are looked upon as the Golden Age of the Island. In hindsight one can understand this in view of the long period of retrenchment that followed.

Diagram 1

Population
P.E.I., 1798-1988



Source: Statistics Canada, Census & Catalogue 91-210

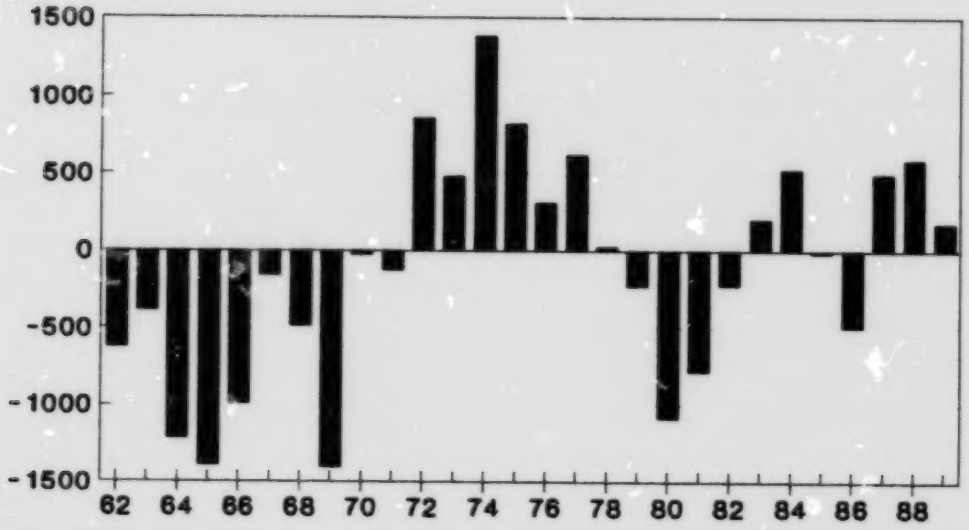
During the 1880's population growth halted. Then the Island suffered a continuous absolute population decline from 1891 to 1924 by which time only 86,000 remained on the Island. From the late 1920's through to the early 1970's population growth re-emerged but at an extremely slow pace.

Population growth up to the late 1960's was slow because of general net out-migration of people from the Province. This population movement counteracted the effect of a general decline in the death rate during the Century and a period of high fertility rates following World War II (the Baby Boom).

The 109,000 population level achieved in 1881 was not re-achieved until 1964. In contrast to earlier decades the 1970's was a period of accelerating growth. This occurred despite a decline in births in those years. The reason for vigorous growth was that net out-migration changed to net in-migration. This can be seen in Diagram 2 which shows net interprovincial migration for Prince Edward Island over the period 1962 to 1989. In large measure the source of these migrants was the province of Ontario although large flows of individuals between Prince Edward Island and Nova Scotia and New Brunswick have always been present.

Diagram 2

Net Interprovincial Migration
P.E.I., 1962-89



Source: Statistics Canada
Catalogue 91-208

Moving to more recent times, population growth suffered a set back in the late 1970's when considerable numbers moved to Alberta during the energy boom in that province. This was a short term phenomenon and the 1980's have subsequently witnessed modest but consistent net inflows of people from other provinces. But slowing growth underlies present trends in view of the persistent decline in the birth rate, as families become smaller, and as the proportion of highly mobile young adults in the population falls. Average family size in 1961 was 4.2, in 1986 it was 3.4. The birth rate today is 1.5 which can compare to about 4.0 during the 1950's. The smaller family size is one aspect of the major structural changes that Prince Edward Island continues to experience.

The geographical distribution of the Island's population today is very different from what it was in the "Golden Age". In 1881 95,700 of the 109,000 individuals living on Prince Edward Island lived in its rural parts. Virtually all of these rural inhabitants lived on farms, though early Censuses did not distinguish between the rural farm population and the rural non-farm population. The population was also widely dispersed across the Island. Approximately 34 per cent of the population lived in Prince County, 42 per cent in Queens County and 24 per cent in Kings County.

By 1931, when the Island's population had slowly started to increase again following the severe decline described earlier, the population living on farms had fallen to 55,500. In other words the farm population had dropped by about 35,000 between 1881 and 1931! At that time there were 12,900 farms on Prince Edward Island. The decline in the farm population did not halt after 1931 and has continued to present times. The most recent Census, 1986, identified only 10,300 people living on farms that year. Information from that Census also indicates that perhaps only one-half the present 2,833 farms are now self supporting.

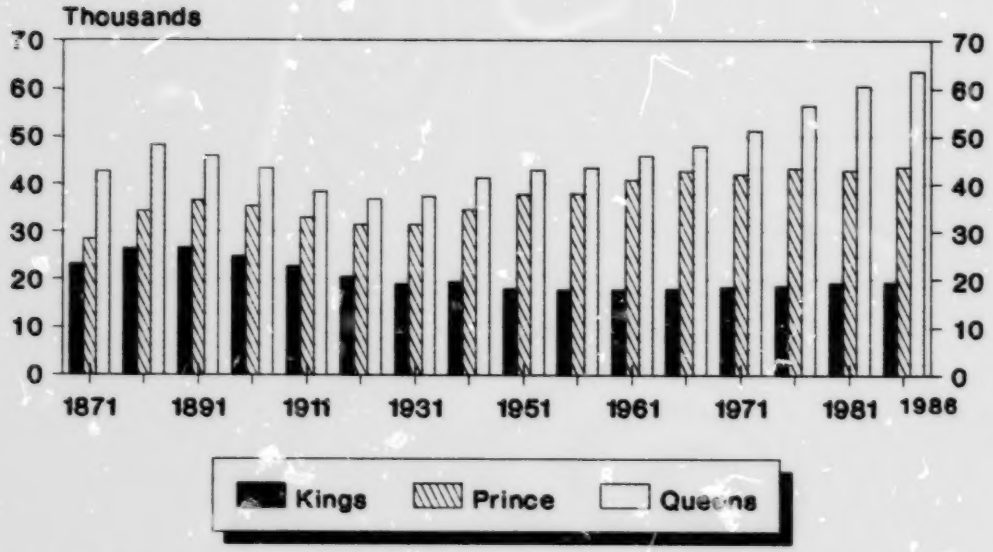
The population recovery since the 1930's clearly did not occur within the farming sector. Rather the growth of the Island's population is found in and around the urban areas of the Province and that growth has been dominated by Charlottetown and to a lesser degree Summerside. While the statistics on their growth are subject to interpretation in view of population expansion into the rural areas surrounding the urban centres there can be little doubt of the importance of this growth. At the turn of the Century the population of Charlottetown and area was only about 12,000. The population of the Charlottetown Census Agglomeration Area had expanded to 53,900 by 1986, of whom 40,000 lived in municipally organized areas. Only 15,776 lived in the City of Charlottetown itself. Summerside had a population of only 2,678 in 1911 when it was first recognized as an urban area, and by 1986 its municipally organized areas had grown to 15,200. Thus by 1986 the Charlottetown and Summerside urban areas had a combined population of between 55,200 and 69,100 persons, depending on one's interpretation of the dimensions of these regions. This represents somewhat more than one-half of the Province's present population. By contrast the population on farms forms only 8 per cent of the total today, compared to about 83 per cent in 1881.

Diagram 3 shows the population level of each county from 1871 to 1986. Queens County peaked in 1881 at 48,111 inhabitants, fell to 36,650 by 1921, grew weakly to 1941 when it measured 41,142 and has enjoyed high growth thereafter. Today Queens has some 63,460 inhabitants and is growing by about 3,000 persons every five years. Its strongest expansion was between 1971 and 1981 when 9,335 additional persons lived there.

Kings County expanded to 26,633 inhabitants by 1891, and then declined to 19,147 by 1931. The decline continued after the Second World War, bottoming out at 17,900 in 1956-61. Since then growth has been very limited and by 1986 the population of Kings County measured 19,509. This was 294 higher than in 1981. The population of Kings is still well below the number of inhabitants living there in the late nineteenth Century.

Diagram 3

Population by County
P.E.I., 1871-1986

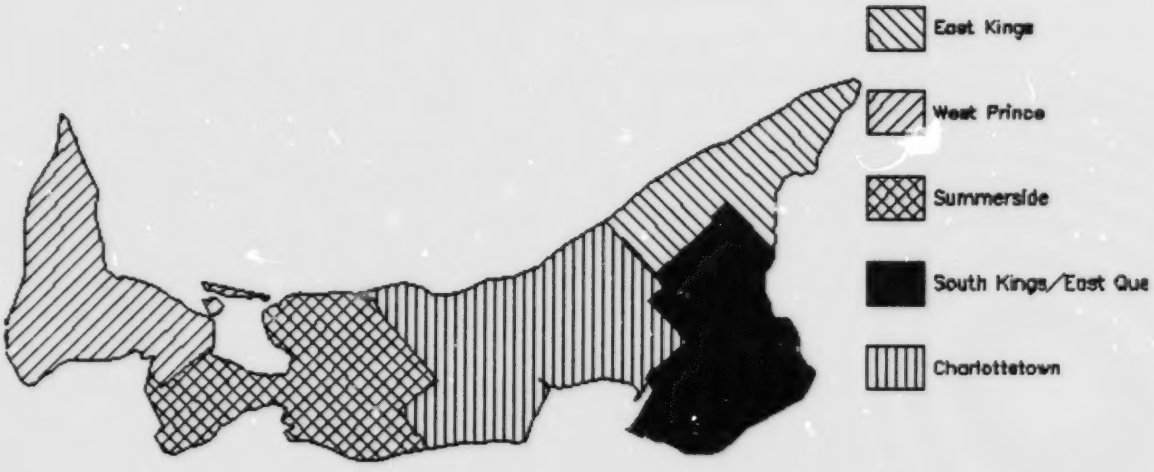


Source: Statistics Canada, Census

Prince County peaked at 36,470 in 1891 falling to 31,500 by 1931. Substantial growth of Prince County took place up to 1971 when the population reached 42,082, since when growth has slowed significantly. The population of Prince actually declined over the period 1976-1981 and it expanded by 856 over the period 1981-1986.

Diagram 4

Regional Service Areas
Prince Edward Island

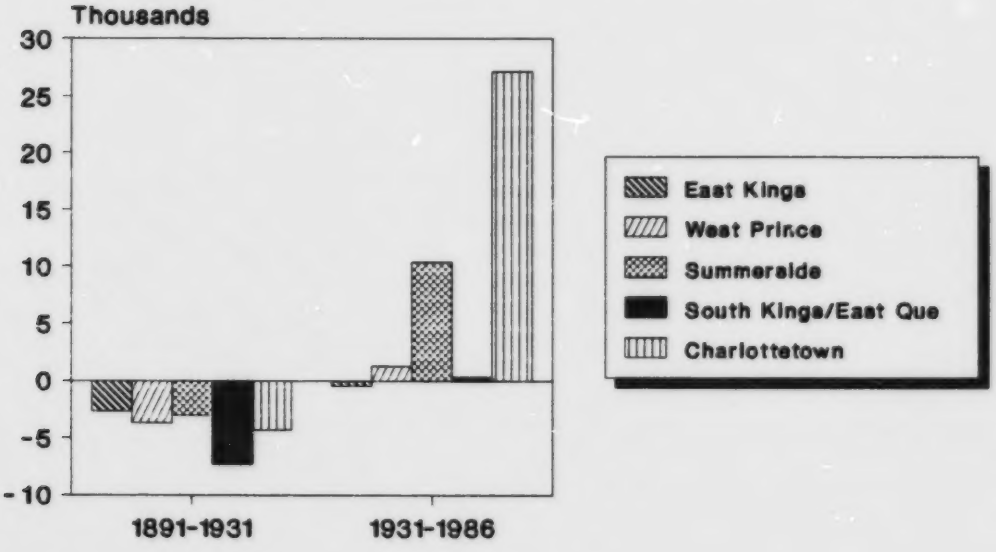


From the perspective of the five regional service areas (displayed in Diagram 4) one finds more subtle changes in growth trends than are apparent at the County level. Diagram 5 shows absolute changes in the population of each region for 1891-1931, and 1931-1986. As can be seen, the decline between 1891 and 1931 occurred in all regions of the Province. Growth since then has varied significantly. In the case of West Prince, population growth 1931-1986 has been very limited, averaging only 0.17 per cent per year. In East Kings the population has continued to decline up to the present. By 1986 the population of East Kings had fallen to 7,287, from 10,407 at its peak in 1891. The southeast corner of Prince Edward Island includes parts of Queens and Kings Counties. Its population continued to decline to 1971, since when it has experienced a modest recovery, increasing from 13,447 in 1971 to 14,882 in 1986 but it remains substantially below the peak of 21,930 achieved in 1891. Much of the growth of this region in recent years can be found in the municipalities of Montague and Cardigan. The East Prince Region expanded to the late 1960's reaching 29,754 by 1971. Since then it has shown very little growth, measuring 30,548 in 1986. Strongest growth for this region is in the outskirts of Summerside in such communities as Wilmot and Sherbrooke. Summerside's fortunes have been closely associated with the airbase which is situated in the

municipality of St. Eleanors. Approximately 33 per cent of the Summerside economy stems from the presence of the military base.

Diagram 5

Population Decline and Rise
P.E.I., 1891-1931 & 1931-1986



Source: Statistics Canada, Census

The Charlottetown Region includes a large part of Queens County. Approximately 46 per cent of the Island's population, or 58,234, lived there in 1986. The area experienced substantial growth 1931 to 1971, rising from 31,093 to 45,964 inhabitants. Very rapid growth of this area took place 1971 to 1981, averaging 1.9 per cent per year. This growth has slowed over the period 1981 to 1986, to 1.0 per cent per year. The largest increases occurred in the areas surrounding the urbanized parts of Charlottetown and this has resulted in the development of a large number of new municipal organizations around Charlottetown such as Crossroads, Miltonvale, North River and Winsloe.

Diagram 6

Primary Sector Dependence
(Agriculture, Fishing, & Forestry)

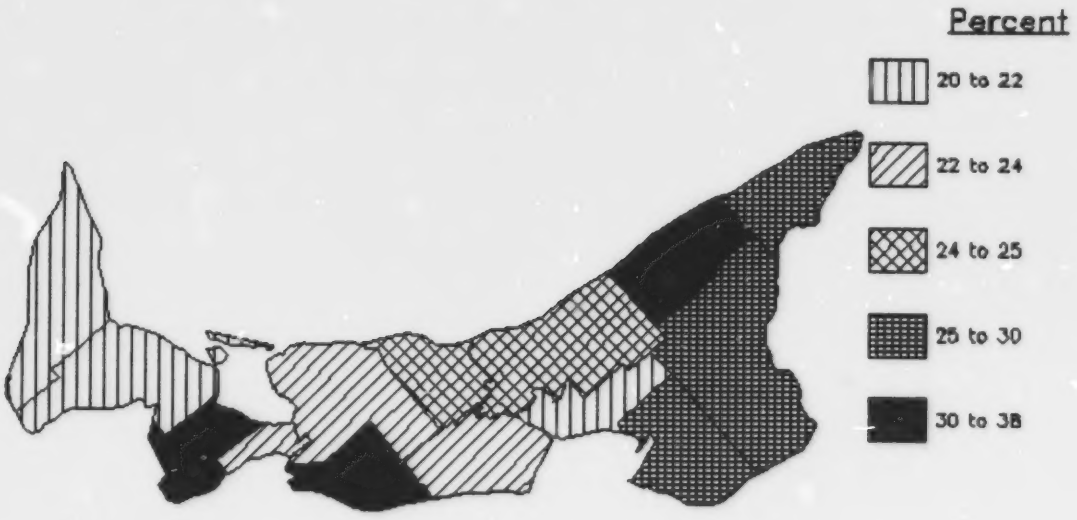
Source: Statistics Canada, Census, Catalogue 94-104

There is a striking difference in the economic base of the fast growing parts of the Province when compared to the areas of limited growth or decline. Diagram 6 shows the percentage of the labour force of regions of the Province engaged in primary sector activities of agriculture, fishing and forestry. One can see that the regions of West Prince, North East Kings and South Queens have a relatively high dependence on primary pursuits, at over 31 per cent of their labour force. By contrast, the regions close to Summerside and Charlottetown have less than 11 per cent engaged in primary activities.

Diagram 7 identifies the percentage of the labour force, in 1986, in secondary activities. These activities embody manufacturing, transportation, utilities and construction. The high concentrations of the labour force in secondary industries in Lower East Kings, South Summerside and West Summerside coincide with those parts of the Province suffering from serious population declines, 1961 -1986.

Diagram 7

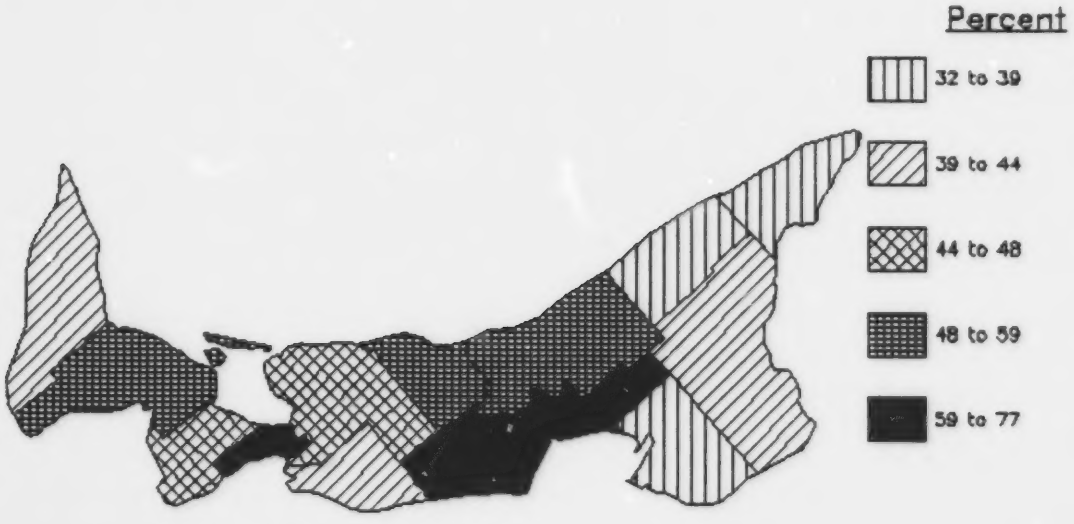
Secondary Sector Dependence
(Manufacturing, Construction, & Trans.)



Source: Statistics Canada, Census, Catalogue 94-104

Diagram 8

Tertiary Sector Dependence
(Services)



Source: Statistics Canada, Census, Catalogue 94-104

Diagram 8 displays data on regions of the Province by the degree of the labour force in tertiary (service) sectors. The percentage is high in all regions at over 32 per cent, but the concentrations in Charlottetown and Summerside are very apparent. There are also high percentages to the north of Charlottetown and in Lower West Prince.

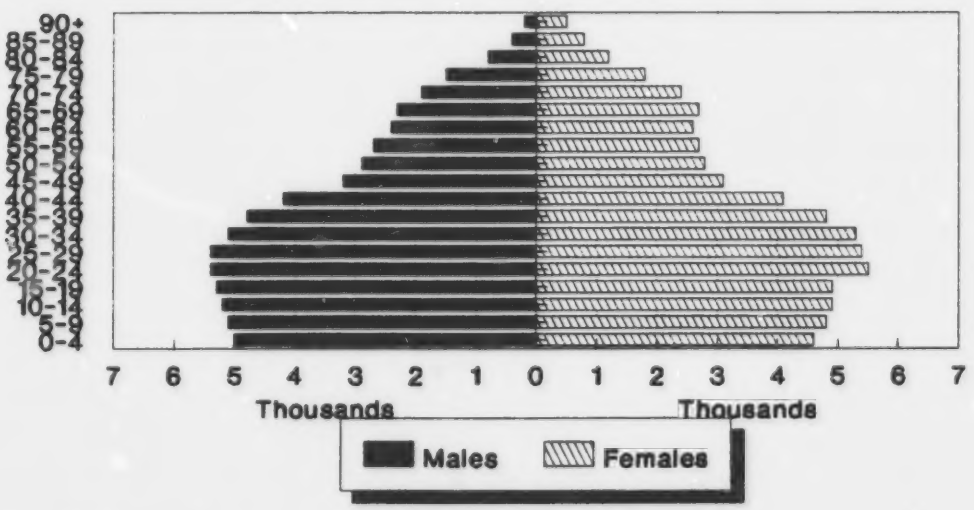
In general terms it is apparent that the faster growing regions are focused on service or tertiary sectors whereas primary and secondary sector regions have offered limited growth opportunities. The major exception to this is South Kings which has witnessed modest population growth notwithstanding a high dependence on the primary and secondary sectors.

b. Population Age Distribution

The present low birth rate of the Island's population coupled with increased life expectancy means that the population is becoming more mature. There are consequently substantial increases in the elderly and particularly elderly females on the Island.

Diagram 9

Population Distribution
P.E.I., 1989



Source: Statistics Canada
Catalogue 91-210

The baby boom of the post war period continues to have a major effect on population trends. The "baby boomers" are now predominantly in their late 20's, 30's and early 40's and their numbers dominate the distribution of the population.

The net in-migration of the 1970's has added to the numbers of these middle age adults. Approximately 30 per cent of the Prince Edward Island population today is 25-44 years of age. An age-sex profile of Prince Edward Island in 1989 is shown in Diagram 9 where this is evident.

In 1989, 12.7 per cent of the population was over 65 years of age. Fifty seven per cent of this group was female. Over 60 per cent of those over 75 years of age were female in 1989.

A comparison of the age structure of Prince Edward Island today with that of 1931 is made in Table 1 which shows striking differences.

Table 1: Comparison of the Age Structure of the Population, P.E.I., 1931 & 1989

	1931	1989
Percentage 0-14 years	31.9%	22.8%
Percentage 15-24 years	18.1%	16.1%
Percentage 25-44 years	22.8%	30.8%
Percentage 45-64 years	16.8%	17.6%
Percentage over 65 years	9.9%	12.7%
Percentage over 75 years	3.7%	5.7%

Source: Statistics Canada Catalogue 91-210

As can be seen, the proportion of the Island's population 0-14 years is far less today when compared to the prewar period. But there is a considerably higher percentage of young adults 25-44 years of age now, as well as significantly more over 65 years of age. These results stem from the higher life expectancy and lower birth rate that is occurring.

Projections of the Island population into the future are difficult as a great deal depends on economic circumstances. Assuming no major net migration flows occur, growth is likely to slow as families continue to shrink in size. The proportion of the population over 65 years will increase slightly by the end of the Century, to reach approximately 13 per cent, but this proportion is growing slowly given the past lengthy history of out-migration of the population. The situation changes dramatically in the 2015-2030 period as the baby boomers reach pensionable age. The number of children on

Prince Edward Island at the turn of the Century will be an even smaller percentage of the total, at about 20 per cent.

c. Concluding Comments

In summary, population growth on Prince Edward Island was rapid in the first three quarters of the nineteenth Century, turning to population decline shortly after the Province entered Confederation. The recovery from the 1930's has been largely determined by growth in and around the urban centres of Charlottetown and Summerside. The population living on farms and dependent upon agriculture has fallen to an extremely low level and is in startling contrast to the predominance of agriculture in the life of the Island in earlier years. Population growth accelerated in the 1970's as a result of net in-migration from other provinces to Prince Edward Island. The present trend is for slowing growth in view of the trend towards small families, and limited net in-migration. The population is steadily aging and a rapid increase in the over 65's will occur in the second decade of the twenty first Century.

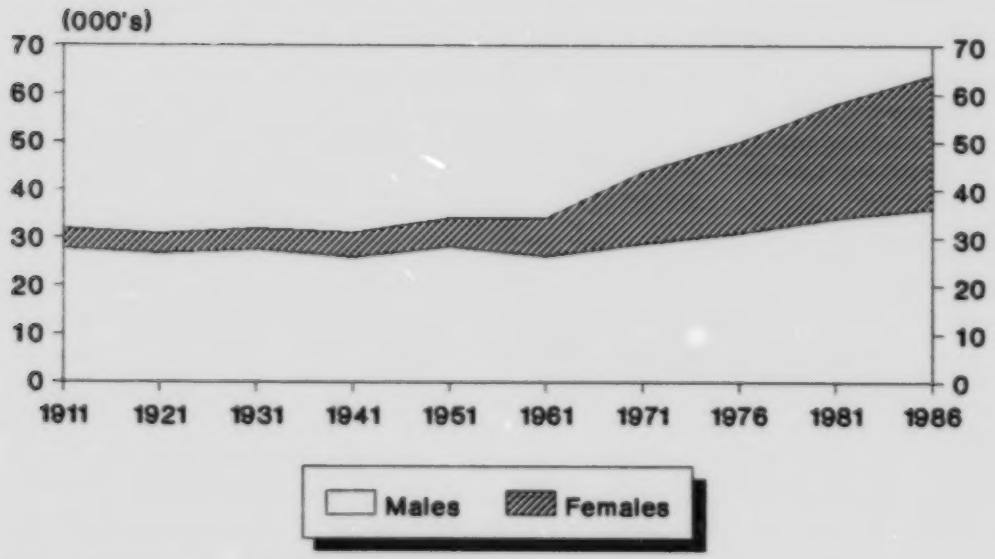
3. LABOUR FORCE TRENDS

a. Historical Trends

From the beginning of the Century until the early 1960's the total labour force on Prince Edward Island experienced virtually no growth. The 1970's and 1980's are in sharp contrast to that long period. The growth of the male and female labour force from 1911 to 1986 is displayed in Diagram 10. In 1911 the labour force was 31,800. By 1961 it was still only 34,100, an increase of about 50 per year. The male labour force declined from 27,900 in 1911 to 26,100 in 1961 and the modest growth in the labour force that did take place was entirely due to increased participation of females. This lack of growth was essentially caused by the major decline of the labour force in the agricultural sector which offset growth in other sectors. As pointed out previously, 85 per cent of the population depended on farming at the beginning of the Century. Farms required less labour as they became larger and more mechanized and by 1986 the labour force employed in agriculture was only 5,700.

Diagram 10

Labour Force by Sex
for Selected Years, 1911-1986

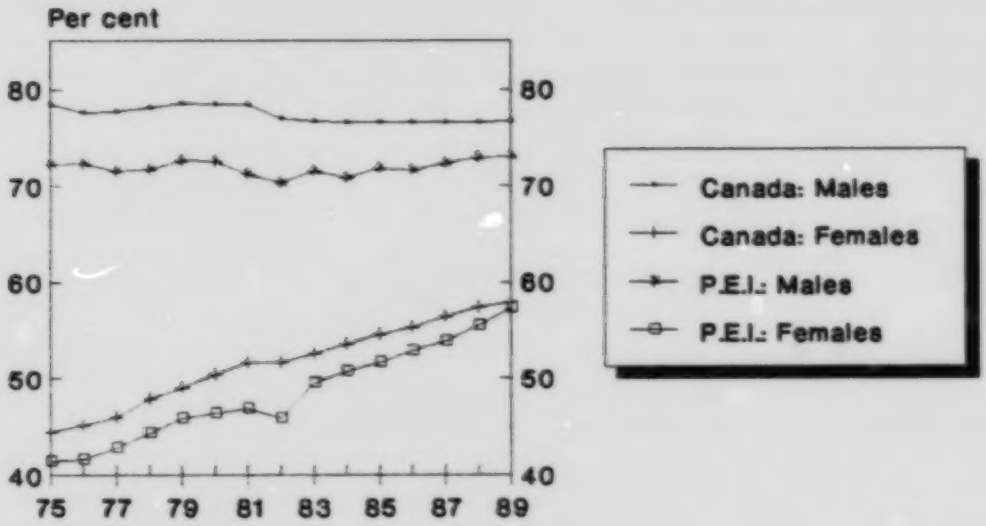


Source: Statistics Canada, Census

A major turnaround in labour force growth has occurred since 1961. From 1961 to 1986 the labour force increased from 34,000 to reach almost 62,600. As can be seen in Diagram 10 the rise in the female labour force has dominated recent labour force trends. The female labour force rose from 8,100 in 1961 to 27,000 in 1986, while the male labour force went from 26,100 in 1961 to 35,600 in 1986.

Diagram 11

Labour Force Participation Rate
P.E.I. & Canada, 1975-89



Source: Statistics Canada
Catalogue 71-201

The rise in the female labour force resulted from increased participation of women in the labour market. Diagram 11 shows the male and female labour force participation rates for both Prince Edward Island and Canada. Participation rates measure the population 15 years of age and over who are active in the labour force at a given time. As can be seen from the diagram, the female participation rate on Prince Edward Island increased steadily from 41.4 per cent in 1975 (when annual statistics became available), to 57.3 per cent in 1989. The dramatic increase in the female labour force participation rate over the period 1975 to 1989 on Prince Edward Island reflects a variety of factors and clearly the Island pattern parallels that of the nation. Changing social and cultural factors in Canada, including reduced family size, have facilitated increased female labour force participation. Employment opportunities in a wide range of industries have also arisen, particularly in the service sector where female employment predominates.

The Canadian male labour force participation rate has been trending slowly downward and in 1989 the Canadian rate stood at 76.7 per cent. The main reasons for the trend are that males are entering the labour force later due to continuing education and leaving sooner, taking early retirement. But, as can be seen from Diagram 11, this downward trend reversed on Prince Edward Island in the 1980's. Since 1980 there has been a gradual rise in male labour force participation and the rate stood at 73.1 per cent in 1989. The male labour force participation rate declined significantly during the 1980-82 recession as males withdrew from the labour force because of the lack of employment opportunities. Since the 1980-82 recession the male participation rate has risen to even surpass the 1975 level. The most probable causes of the rising male labour force participation rate in the 1980's are changing demographics and increased employment opportunities.

The seasonality in the Prince Edward Island labour market is the main reason for the lower labour force participation rate (both sexes) relative to Canada. The female labour force participation rate on Prince Edward Island during the winter months is usually four to five percentage points lower than that of Canada. On the other hand, the female participation rate on Prince Edward Island exceeds the national rate during the summer months. Overall, these seasonal factors lower the annual average monthly participation rate for females on the Island by about two percentage points. The male participation rate on Prince Edward Island tends to be below that of Canada throughout the year, but it is also marked by a high degree of seasonality.

The age distribution of the Island population is another factor contributing to the lower participation rate. Prince Edward Island has the second highest proportion among Canadian provinces (second to Saskatchewan) of its population over 65 years of age. As this age group has a very low labour force participation rate, the overall rate for Prince Edward Island is low relative to the rate for Canada.

Over the past 15 years, monthly labour force statistics for Prince Edward Island have been available from Statistics Canada's **Labour Force Survey**, and Diagram 12 shows the Island's labour force and employment trends over this period. The diagram shows that after strong gains in the size of the labour force and total employment during the late 1970's, both dropped during the 1980-82 recession. Average monthly employment declined from 47,000 in 1981 to 45,000 in 1982, and rebounded to 48,000 by 1983. Employment gains in Prince Edward Island over the period 1982-88 were the strongest of any province in Canada averaging 3.1 per cent per year, compared to 2.6 per cent in Canada. This was due to the strong recovery following the severe decline in employment on the Island during the period 1980-82. Employment growth stalled in the Province in 1989 due in part to a weakening economy that year, having reached 54,000.

Diagram 12

Labour Force & Employment
P.E.I., 1975-89

Source: Statistics Canada
Catalogue 71-201

Labour force growth on Prince Edward Island has generally tracked employment trends. Increased employment opportunities on Prince Edward Island go hand in hand with increased labour force participation. They also appear to increase population growth through inter-provincial migration.

b. Industrial Trends

By the 1970's the Prince Edward Island economy had moved from an agricultural based economy to a far more diversified economy. Table 2 shows the labour force by industry for Prince Edward Island for the census years 1961, 1971, 1981, and 1986.

Table 2: Labour Force by Industry
P.E.I., 1961-86

	1961	1971	1981	1986
Agriculture	9,152	5,840	5,830	5,750
Forestry	142	110	290	420
Fishing	2,088	2,130	2,790	3,555
Mines, Quarrying	4	50	120	95
Manufacturing	3,004	4,200	5,825	6,415
Construction	2,238	2,820	4,420	4,070
Transportation & Comm.	2,807	3,140	3,975	4,280
Finance, Ins., & Real Estate	556	850	1,605	1,675
Trade (Wholesale, Retail)	4,797	5,900	8,160	8,775
Services (C.B.P.S.)	5,677	9,425	15,655	18,210
Public Admin. & Defense	2,953	4,695	6,075	7,470
Other	1,286	3,835	1,785	1,860
All Industries	34,148	2,990	56,550	62,575

Source: Statistics Canada, Census

As can be seen from Table 2, the community, business and personal services (C.B.P.S.) sector in Prince Edward Island had the largest labour force in 1986, and this was followed by the trade sector (wholesale and retail) and then public administration and defense. The agricultural sector had a labour force of 5,750, or 10.2 per cent of the total labour force.

Labour force growth since the 1960's was dominated by the community, business, personal services, public administration and defense, manufacturing, and trade sectors. The services industry replaced agriculture as the largest industry of employment during the period 1961-71. In the 1970's the labour force in agriculture leveled off at 5,800. The labour force expanded across all other sectors, but continued to be dominated by the community, business, and personal services industry. The trade and manufacturing sectors also made significant gains in this period. More recently, the services industry and public administration have continued to expand, contributing to 65 per cent of all labour force gains between the Census years 1981 and 1986.

The changes in these industries over the period 1961 to 1989 are discussed further in Section 4 "Economic Structure of Prince Edward Island Today".

c. Unemployment

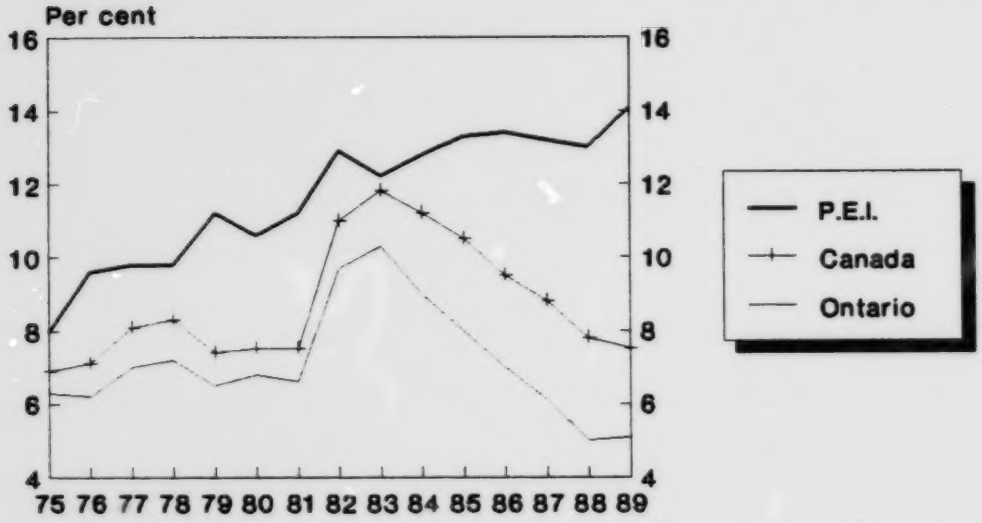
Unemployment has continued to be a major problem for the Island economy. Even periods of rapid expansion in employment have had little impact on reducing the unemployment rate. Before examining this situation it is important to understand how the unemployment rate is measured.

Statistics Canada measures labour market conditions in Canada from a monthly survey of 63,200 households. The questionnaire, in part, determines the respondents' monthly labour force status for a reference week (usually the second week of the month). Individuals can be classified as employed (full-time or part-time), unemployed, or out of the labour force. Although these distinctions appear clear cut this is not always the case. A person is declared employed if they did any work at all for pay or profit, including unpaid work which contributed directly to a family business. This means that a person is classified as employed even if they only worked one hour during the reference week. Individuals are declared unemployed if they were without work and had actively looked for work in the four weeks prior to the reference week. If a person was not employed but was not actively seeking employment, he would be counted as out of the labour force and not as unemployed. As a result, individuals who are not at work during the off-season are not counted as unemployed. Island fishermen who are laid off during the winter months are not considered unemployed, but they are instead classified as "out of the labour force". Such individuals may however still qualify for Unemployment Insurance benefits. In fact the number of Unemployment Insurance beneficiaries during the winter is much greater than the number of persons that Statistics Canada classifies as unemployed. The difference on Prince Edward Island ranges from about 1,000 per month in the summer to over 8,000 per month in the winter.

Diagram 13 shows the unemployment rate for the period 1975 to 1989 for Prince Edward Island, Canada and Ontario. Clearly the unemployment rate on Prince Edward Island is determined by different factors than those influencing Canada as a whole. In particular, the divergence of the unemployment rate since 1983 between Prince Edward Island and Canada is marked. The high rate of unemployment has continued despite significant employment gains on Prince Edward Island since the 1980-82 recession. While the unemployment rate in Canada fell from 11.8 per cent in 1983 to 7.5 per cent in 1989, the unemployment rate on Prince Edward Island rose from 12.2 per cent in 1983 to 14.1 per cent by 1989.

Diagram 13

Unemployment Rate
P.E.I., Canada, & Ont.

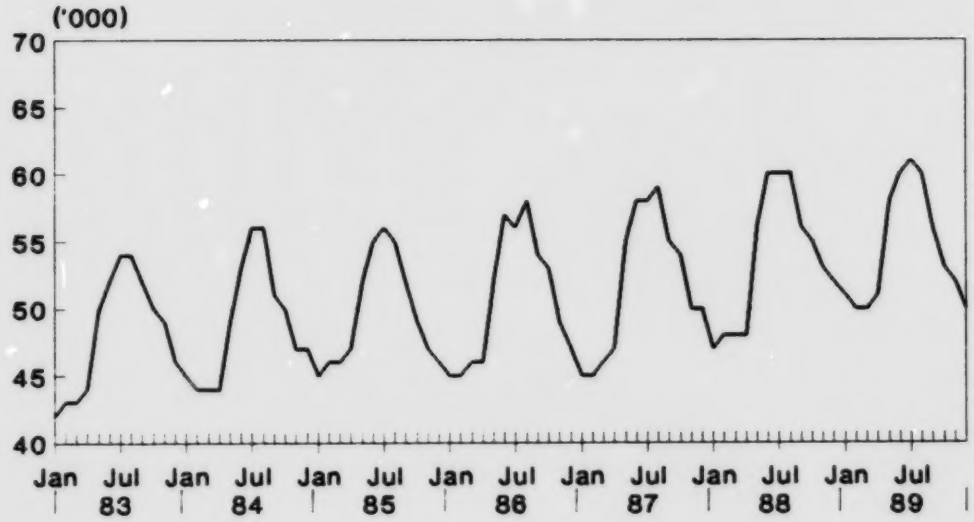


Source: Statistica Canada
Catalogue 71-201

The primary difference between the Prince Edward Island and Canadian or Ontario labour market is the prevalence of seasonal employment. The seasonal swing in employment on Prince Edward Island can be seen in Diagram 14. Employment on Prince Edward Island typically peaks in the month of July and is low during the months of January to March. In 1989, employment ranged from a low of 50,000 in January and February to reach a high of 61,000 in July. Part of the increased employment during the months of June to August is due to student summer employment.

Diagram 14

Monthly Employment
P.E.I., 1983-89

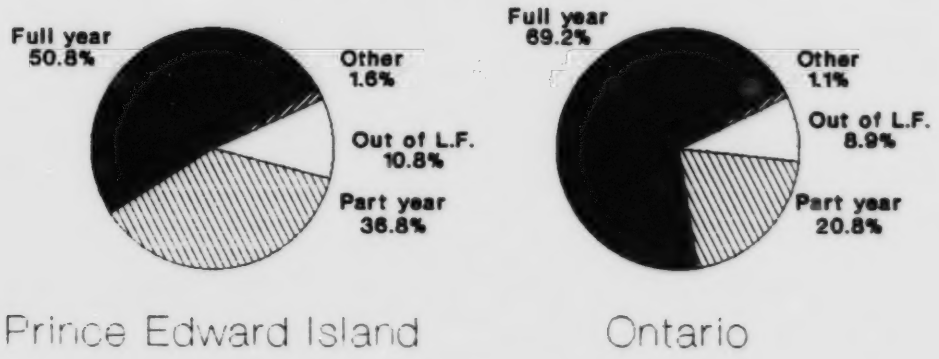


Source: Statistics Canada
Catalogue 71-201

The seasonal aspects of the Prince Edward Island labour market can also be discerned from the 1986 labour market data in Statistics Canada's **Labour Market Activity Survey**. This survey provides information on labour market participation and characteristics of jobs held during the year. Of particular importance is the labour market status of males and females during a year. Individuals are classified as having full-year employment, employed part of the year or are out of the labour force for the whole year. There is also a very small percentage of individuals who entered the labour force at some point in the year looking for work but were unable to find suitable employment.

Diagram 15

Labour Force Status: Males
P.E.I. & Ontario, 1986



Source: Statistics Canada
Catalogue 71-206

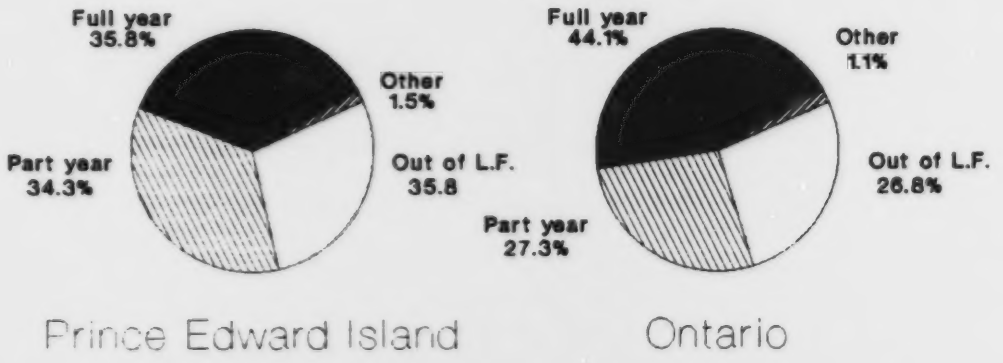
The survey results for Prince Edward Island males in 1986 are shown on the left hand side of Diagram 15. Just over one-half of males on Prince Edward Island in 1986 between the ages 15 and 69 had full-year employment, while 36.8 per cent of males worked part of the year. This latter group of males should not be interpreted as being in part-time employment. For example, a person who worked full-time for 26 weeks of the year and been laid-off for the remainder of the year would be considered employed part-year.

In comparison with Ontario, shown on the right hand side of Diagram 15, Prince Edward Island had a disproportionately high percentage of males with part-year employ-

ment. Ontario had only 20.8 per cent of males in part-year employment compared to 36.8 per cent on Prince Edward Island. The seasonal nature of the agriculture, fishing, construction, and tourism industries results in a high proportion of part-year employment on Prince Edward Island. By their very nature these industries provide very limited employment during the winter months and this cycle of employment and non-employment is repeated each year. The seasonal swings in employment are also affected by the large degree of part-year work by students in the summer months. Another fact to be highlighted is that the proportion of males not in the labour force at any point during the year was very similar in Prince Edward Island and Ontario.

Diagram 16

Labour Force Status: Females
P.E.I. & Ontario, 1986



Source: Statistics Canada
Catalogue 71-205

The labour force status of females on Prince Edward Island is more similar to Ontario than for males as is shown in Diagram 16. The proportion of women with part-year employment in Prince Edward Island was 34.3 per cent compared to 27.3 per cent in Ontario. The proportion of females who were out of the labour force in Prince Edward Island and Ontario was 35.8 and 26.8 per cent respectively.

The above analysis shows that Prince Edward Island has a high proportion of its labour force in short term part-year employment as a result of the more seasonal economy than exists in Ontario or Canada more generally. The higher unemployment rate in Prince Edward Island for both males and females appears related to the large

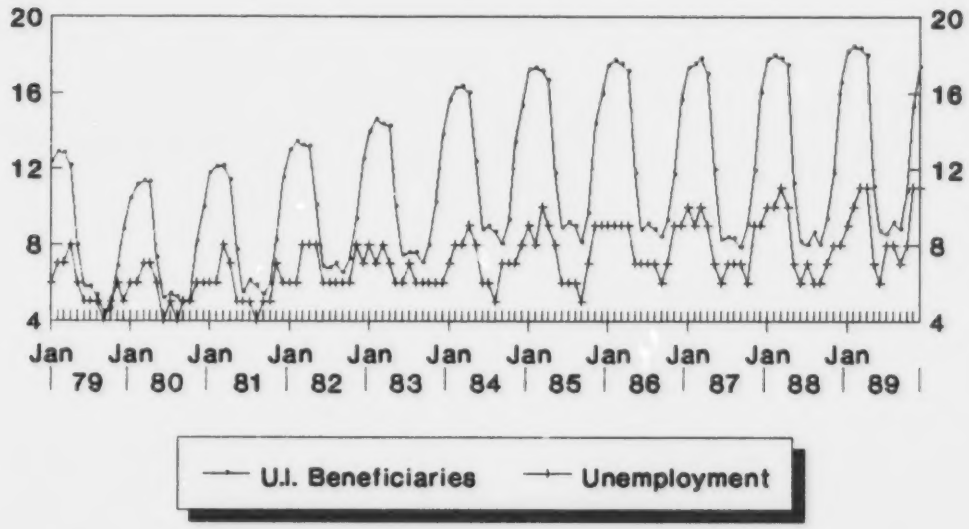
numbers between work from season to season compared to Ontario. There remains the question as to why the unemployment rate on Prince Edward Island has increased since the 1980-82 recession.

The increase in the unemployment rate in the 1980's can be examined with the data from the **Labour Market Activity Survey** in 1986, and the **Annual Work Patterns Survey** that had been conducted between 1977 and 1985. Although the two series are not necessarily directly comparable, one can discern general patterns. These surveys show that the number of males employed all year in Prince Edward Island has varied between 19,000 and 21,000 since 1977. The peak year of employment of 21,000 in 1977 was not reached again until 1986. The major plant closings during the 1980-82 recession resulted in a serious loss of full-year employment for males. Gains in employment for males since then has come primarily from part-year work. Part-year employment for males increased by 2,000 over the period 1977 to 1986. This increase in the number of males employed part-year, while full-year employment has remained constant, is the probable cause of the increased unemployment rate.

The trend of Prince Edward Island males towards part-year employment has not occurred in the female labour force. By contrast with trends in male employment, the **Labour Market Activity Survey** and **Annual Work Patterns Survey** show that growth in full-year employment by females on Prince Edward Island has been pronounced, increasing from 11,000 in 1977 to 15,000 in 1986. In the same period there was an increase of only 2,000 in the number of females employed on a part-year basis. Therefore, females have increased their full-year employment both in absolute and relative terms. The unemployment rate for females in the past few years has remained above 14 per cent. This phenomenon of increased full-year employment by females with continued high unemployment rates for females is not fully understood.

Diagram 17

Unemployed & U.I. Beneficiaries
P.E.I., 1979-89

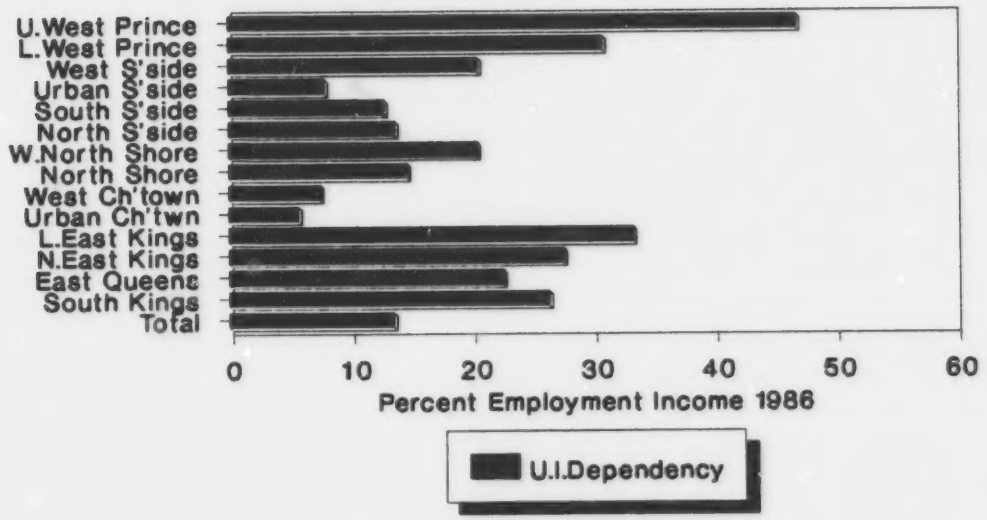


Source: Statistics Canada
Catalogues 71-201 & 73-202S

Unemployment Insurance dependence on Prince Edward Island is very high compared to most other provinces and these benefits provide a major source of income security for those employed part-year. The monthly numbers of unemployed from the **Labour Force Survey** is compared to the total number of Unemployment Insurance beneficiaries in Diagram 17. The number of Unemployment Insurance beneficiaries has substantial variation and a distinct seasonal pattern. For example, during September 1989 the number of beneficiaries was 8,810 compared to 18,440 in February of the same year. Part of this increase in February was due to the 2,400 collecting fishing benefits. The monthly pattern of Unemployment Insurance beneficiaries and the number of unemployed repeats itself every year. Statistics Canada's measure of unemployed has a seasonal pattern but shows less variation due to the method by which individuals are deemed to be unemployed. As noted above an individual must be actively searching for work to be declared unemployed.

Diagram 18

Unemployment Insurance Dependency
P.E.I., Fourteen Regions, 1986



Source: Statistics Canada, Small Area Data, Labour Force Profile, P.E.I., 1986

Unemployment Insurance dependence is markedly different between the urban centres and rural parts of Prince Edward Island. Diagram 18 identifies Unemployment Insurance dependence in various regions of the Province. This is measured as the percentage of income derived from Unemployment Insurance relative to income from employment. The highest dependence is in West Prince, the lowest in Charlottetown. There are several reasons for this, (a) the reliance on fishing and the entitlement to fishermen's Unemployment Insurance benefits, (b) the extreme seasonality of economic activity in rural Prince Edward Island, (c) the greater reliance on more varied sources of incomes such as Pensions and Dividends among the somewhat older populations of the urban centres and (d) the higher incomes from employment of those in the urban centres.

The diagram indicates that Unemployment Insurance benefits, as a ratio to earned income from employment, were 13.4 per cent for Prince Edward Island in 1986 on average. The ratio for Upper West Prince was 46.9 per cent. This means that for every $100 earned from employment in that area, the Unemployment Insurance program provided a supplement of $46.90. By contrast Urban Summerside and Charlottetown have very minor dependence on Unemployment Insurance, at between 5.8 per cent and 7.9 per cent.

As will be discussed in Section 5 "Income of Islanders", Unemployment Insurance dependence has increased on Prince Edward Island. The major upshift in Unemployment Insurance benefits occurred after the 1971 revisions to the Unemployment Insurance Act. The number of weeks paid in Unemployment Insurance benefits appears to have stabilized at approximately 700,000 weeks.

d. Concluding Comments

Following decades of no growth up to 1960, the labour force on Prince Edward Island in the last three decades has increased substantially. This was due particularly to the increased labour force participation of women.

Unemployment continues to be a problem for the Island economy. The unemployment rate has remained at the 13 per cent level for most of the 1980's and rose to 14.1 per cent in 1989. The high rate of unemployment appears to be in large part related to the seasonal nature of the economy as illustrated by the proportion of Islander's involved in part-year work. Strong employment gains in Prince Edward Island since 1982 have not resulted in a declining unemployment rate. Instead this has led to higher participation rates and net in-migration to the Province and increased reliance on Unemployment Insurance benefits. The regional distribution of Unemployment Insurance dependency illustrates that the greatest part of the Island's unemployment problem is in the rural areas. In conclusion, the unemployment rate is likely to remain higher than the national average as long as the Island's economy remains dependent upon the seasonal industries of agriculture, fishing, and tourism with continuing reliance upon Unemployment Insurance benefits.

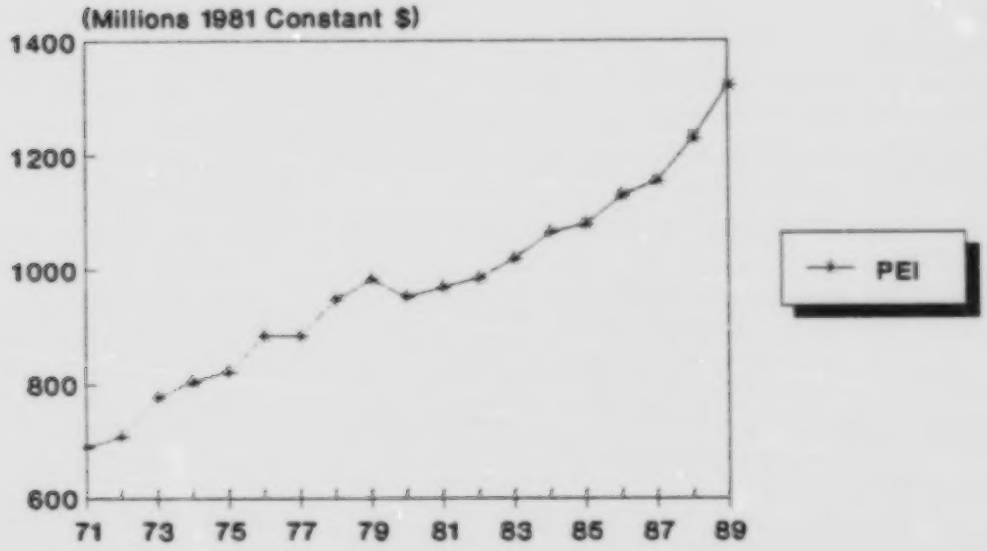
4. ECONOMIC STRUCTURE OF PRINCE EDWARD ISLAND TODAY

a. Introduction

The purpose of this section is to describe the industrial structure of the Prince Edward Island economy and to examine recent developments and basic trends that have emerged in recent times. Historically, the agricultural sector was the dominant sector in the Island economy. The previous sections stressed that the dependence of the population on this sector has declined dramatically over the long term. Today Prince Edward Island has diversified into a wide range of economic activities although agriculture remains an important part of the economy.

Diagram 19

Real Gross Domestic Product
P.E.I., 1971-89



Source: Conference Board of Canada

Diagram 19 shows Real Gross Domestic Product for Prince Edward Island. Gross Domestic Product measures the total value of goods and services produced in a region or country, and the real (constant dollar) estimates are adjusted for the impact of changing prices. The Island economy enjoyed strong growth throughout the 1970's, similar to national trends, but was also strongly influenced by large swings in individual sectors. During the recession in the early 1980's the Island economy suffered a more protracted decline than the national economy. Since the 1980-82 recession the Island economy has

averaged an annual growth rate of 4.2 per cent, slightly faster than the 4.1 per cent for the national economy. An examination of the major Island industries reveals why these trends have occurred.

Table 3: Gross Domestic Product by Industry
Prince Edward Island & Canada, 1989

	P.E.I.	CANADA
Agriculture	9.5%	2.3%
Other Primary (Fishing, Mining, Forestry)	2.3%	6.6%
Construction	10.5%	7.8%
Manufacturing	5.4%	19.2%
Utilities	2.8%	2.9%
TOTAL GOODS	30.5%	38.7%
Transportation & Communications	6.4%	8.5%
Finance, Insurance, & Real Estate	12.8%	14.8%
Trade (Wholesale & Retail)	11.5%	12.5%
Community, Business, & Personal Services	21.3%	19.5%
Public Administration & Defense	17.5%	6.0%
TOTAL SERVICES:	69.5%	61.3%
TOTAL ECONOMY:	100.0%	100.0%

Source: Conference Board of Canada

The industrial structure of Prince Edward Island in 1989, in terms of Gross Domestic Product, is compared to that of Canada in Table 3. The Gross Domestic Product of each industry measures the value added by each sector to sum to the total. The most striking feature of the Prince Edward Island economy, as can be seen in Table 3, is the size of the Island's services sectors compared to goods production. Services form nearly 70 per cent of the Prince Edward Island economy, compared to about 60 per cent nationally. This stems from the Island's small manufacturing sector relative to its large public administration sector. Within goods production, construction and agriculture clearly are the predominant activities.

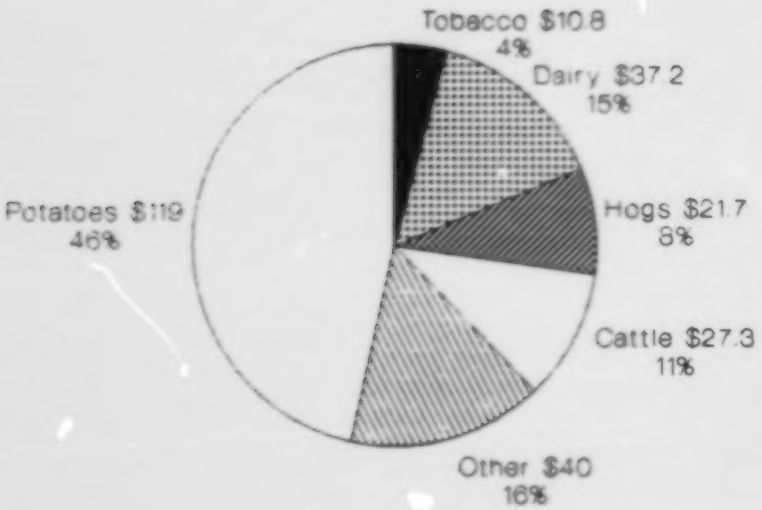
b. Industrial Trends

i) Agriculture

As can be seen in Table 3, the agricultural sector in 1989 accounted for 9.5 per cent of the Island's provincial Gross Domestic Product. This share is more than four times the national average, though it is still substantially less than the contribution of agriculture to the economy of the province of Saskatchewan (at about 18 per cent). Although a wide variety of agricultural products are grown on Prince Edward Island the sales of products are dominated by potatoes, dairy products, livestock, and to a less extent tobacco. Processing of agricultural products also forms a large part of the Island's manufacturing sector. In 1989, sales of the Food and Beverages industry excluding fish processing accounted for almost one-half of all manufacturing shipments from Prince Edward Island. It could therefore be claimed that agriculture contributes to almost another three per cent of the economy (one-half of 5.4 per cent in manufacturing Gross Domestic Product) when the processing of agricultural products is taken into account.

Diagram 20

Farm Cash Receipts
P.E.I., 1989, ($ Millions)



Source: Statistics Canada
Catalogue 21-603E

Total farm cash receipts for Prince Edward Island in 1989 amounted to $256.1 million. Farm cash receipts consist of cash income received from the sale of agricultural products as well as direct support or subsidy payments to farmers. Diagram 20 shows the relative contributions of potatoes, dairy, cattle, hogs and other agricultural products to farm cash receipts in 1989. Potatoes were the largest component of farm cash receipts comprising 46.5 per cent of the total. This figure has been typically about one-third of the total during the last 10 years. There is substantial annual variation in its contribution due to swings in both the quantity harvested and the price of potatoes. In terms of volumes, the Prince Edward Island marketable potato crop was disposed of in the following manner for the years 1984 to 1989: 55.6 per cent to tablestock markets, 12 per cent to seed markets, 19 per cent for local use and processing, and 9.5 per cent seed for the following years' crop. Potatoes are an important aspect of international exports from Prince Edward Island comprising approximately one-half of all exports. The sale of fresh potatoes internationally consumes approximately one-quarter of all potatoes produced on Prince Edward Island.

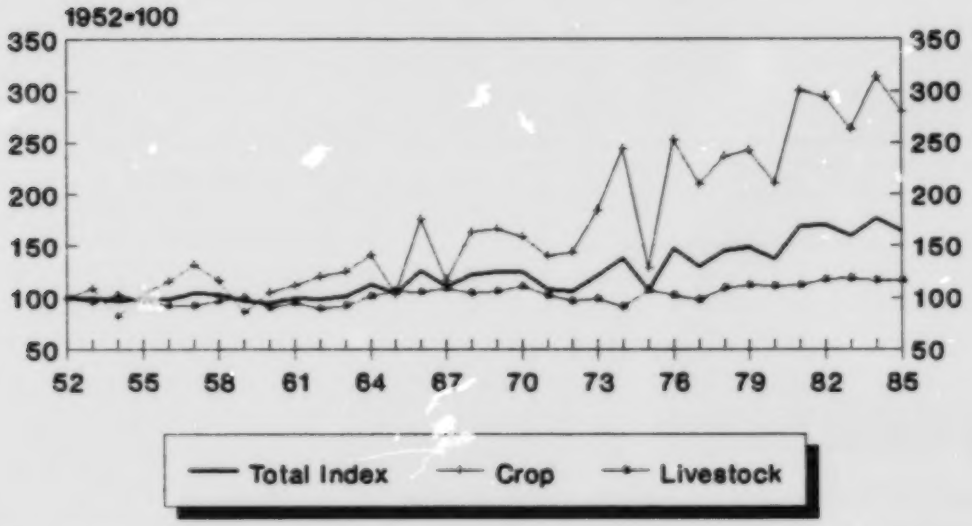
Sales of dairy products formed the second most valuable farm product in 1989 at $37.2 million, accounting for 18.0 per cent of total farm cash receipts. This industry is subject to supply management and has been relatively stable.

Sales of cattle and hogs comprise about 20 per cent of farm cash receipts. Hog prices in North America have been subject to wide fluctuations and this applies to Island hog prices as they are based on Ontario hog prices.

Government support for farm cash receipts is also significant and some payments vary from year to year. For example, in 1988, payments to farmers totaled $21.8 million, accounting for almost 10 per cent of farm cash receipts. Support for agriculture by government in 1988 consisted of payments from the provincial income stabilization program for hogs ($5.8 million), a deficiency payment under the federal Agricultural Stabilization Act ($4.9 million), dairy supplementary payments ($5.4 million), Special Canada Grains program ($3.1 million), crop insurance payments ($1.3 million), provincial Swine Incentive program ($1.0 million) as well as some smaller items. In 1989, government support for agriculture declined significantly to $14.4 million as the Canada Special Grains program was discontinued and there were smaller payments under the Agricultural Stabilization Act.

Diagram 21

Index of Farm Production
P.E.I., 1952-85



Source: Statistics Canada
Catalogue 21-603E

Trends in the volume of output in the agricultural sector on Prince Edward Island can be seen in Diagram 21, Statistics Canada's Index of Farm Production for Prince Edward Island, displaying the growth of total agriculture, and the crop and livestock production components of the index. The overall index has increased markedly over the period. It is clear from the diagram that increased agricultural production on Prince Edward Island has been based on an expansion of crop production. The index of crop production in 1985 is approximately double the level in 1971. By contrast, the index of livestock production has remained relatively constant, increasing by only 16 per cent in total over the 33 year period. Statistics Canada has recently discontinued the statistical series Index of Farm Production, but available data indicate that the volume of agricultural production on Prince Edward Island since 1985 has remained relatively constant.

Although crop production has been subject to major year to year variations, largely as the result of large swings in the volume of potatoes harvested, there has been solid progress in the expansion of the potato crop throughout the 1970's and early 1980's. This was due to both increased potato acreage planted and higher average yields per acre. Acres of potatoes planted averaged about 45,000 during the early 1970's and rose to average almost 70,000 acres in the period 1981-85. Over the same period the average

yield per acre rose from 218 cwts in 1971-75 to 249 cwts in 1981-85. Since 1982 the acreage planted has remained just under 70,000 acres. The development of new potato processing facilities on Prince Edward Island in the 1990's is expected to further increase potato acreage planted.

The measures of production indicate that agricultural output has made major gains notwithstanding the large decline in the numbers of farms, the size of the farm labour force, and the number of people living on farms. The Island continues to witness expansion in the numbers of larger operations and increased use of machinery, whereas smaller farms shrink in number.

ii) Fishing

Fishing is Prince Edward Island's second major primary sector. It directly contributed to 2.3 per cent of provincial Gross Domestic Product in 1989. Fish processing significantly increases the value of the Island's fishery. Shipments of fish products in 1989 accounted for approximately one-fifth of total manufacturing shipments, and thus the processing of fish products forms an estimated additional 1.1 per cent of the Island economy's Gross Domestic Product. Fish processors are located in major harbours throughout the Province and most products are shipped in a frozen or canned form.

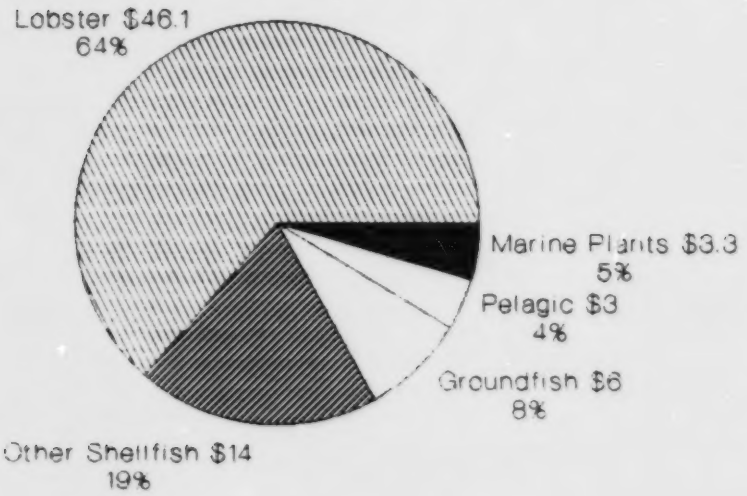
The Island's fishery is primarily seasonal and it is mostly inshore. There were 1,443 inshore boats on Prince Edward Island compared to only 5 offshore vessels operating in 1988. The total value of fish landings in 1989 was $72.4 million and its composition is shown in Diagram 22. Lobster is the principal species landed contributing to almost two-thirds of the total value. Almost every inshore vessel operating out of the Province engages in the lobster fishery and it is the major source of income for Prince Edward Island fishermen.

The next most important group of species was shellfish other than lobster (ie. mussels, oysters, crab, clams, etc.) which in 1989 valued $14.1 million. During the 1980's, the Province has developed a significant aquaculture industry which produces and markets cultured mussels. The development of the aquaculture industry is possible because of the numerous bays along the Province's coastline which are ideal for the cultivation of shellfish. Mussel farming in Prince Edward Island began in the late 1970's. Production was 100,000 pounds in 1981, and by 1989 production had reached 4.8 million pounds and valued $4.3 million. The industry encountered difficulties with shellfish contamination in late 1987 and early 1988, but extensive testing of both waters and the shellfish has restored the product's market position.

Marine plants, groundfish and estuarial species accounted for the remaining fish landed on Prince Edward Island.

Diagram 22

Value of Fish Landings
P.E.I., 1989
$Millions

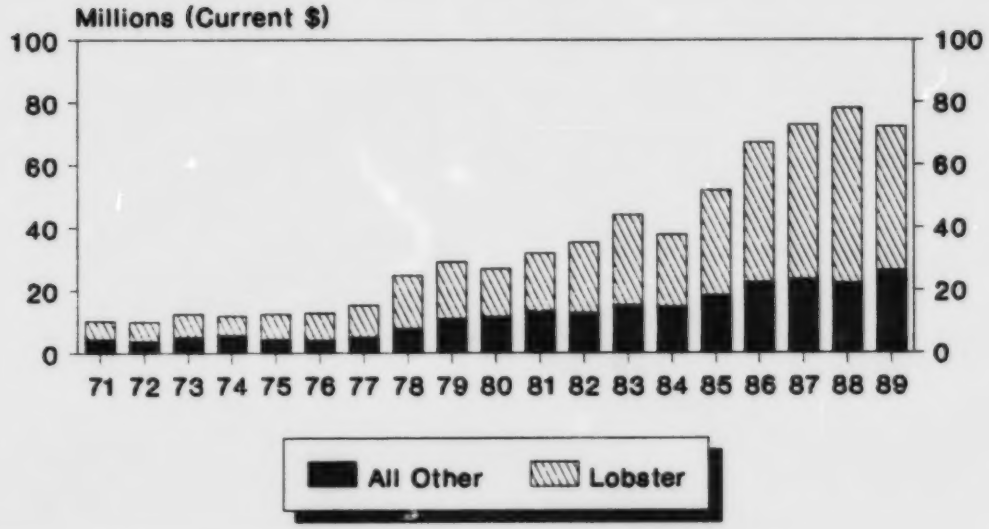


Source: P.E.I. Department of Fisheries and Aquaculture

Fish landings have increased significantly in recent years largely on the basis of gains in lobster landings. Shellfish harvesting has also increased considerably, largely from the production of cultured mussels. Diagram 23 shows the value of fish landings for the period 1971 to 1989 divided by lobster and all other species of fish. The diagram shows that the increase in the value of lobster landings has been particularly strong in the period 1985 to 1988. For example, the value of lobster landed in 1980 was $15.5 million and this increased to over $56 million in 1988. Average prices for lobster have also risen dramatically over the same period, rising from an average price of $1.32 per pound in 1980 to $2.55 per pound in 1988. These prices weakened in 1989.

Diagram 23

Value of Fish Landings
P.E.I., 1971-89



Source: P.E.I. Department of Fisheries and Aquaculture

iii) Other Primary

Forestry and mining are small aspects of the Prince Edward Island economy. Mining consists of a small amount of quarrying of sand and shale. With respect to the Prince Edward Island forestry sector, the 1986 Census indicates that the labour force involved in Logging and Forestry Services was 430, or about 0.7 per cent of the total labour force. Forested land covers approximately 275,000 hectares or 48.7 per cent of Prince Edward Island though this is widely scattered in small woodlots. In 1989, the Island's forest production was 545,000 cubic metres. More than one-half of this forest production was for fuelwood, and the remainder was used for pulpwood and sawlogs.

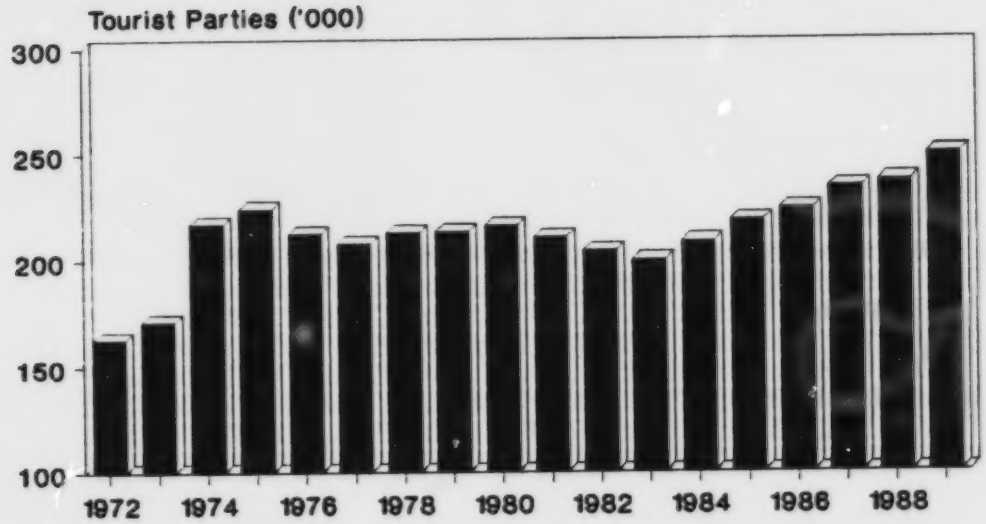
iv) Tourism

Tourism is an important but highly seasonal aspect of the Island economy. The contribution of the tourist sector to the Island economy's Gross Domestic Product is estimated to be between 4 to 6 per cent of the total. A precise figure is difficult to ascertain because economic activities are defined by the nature of their operation and not by their customers. As the tourist industry is essentially defined by those whom it serves,

there is no industrial classification defined as the "Tourist Industry". The seasonal nature of the tourist industry also makes quantification of its exact contribution to the economy difficult.

Diagram 24

Tourist Visitation
P.E.I., 1972-89



Source: P.E.I. Department of Tourism and Parks

Tourist visitation to Prince Edward Island has expanded since the early 1970's but not at a consistent pace. Diagram 24 shows the level of tourist visitation, as measured by the number of air and auto tourist parties, on Prince Edward Island for the period 1972 to 1989. The diagram shows that tourist visitation peaked in the early 1970's, but high gas prices in the early 1980's and the national recession in 1982 reduced the level of tourist visitation to Prince Edward Island over the period 1980 to 1983. Since 1983, tourist visitation has increased by an annual rate of 3.8 per cent, but not until 1987 was the record level of tourist visitation set in 1975 surpassed.

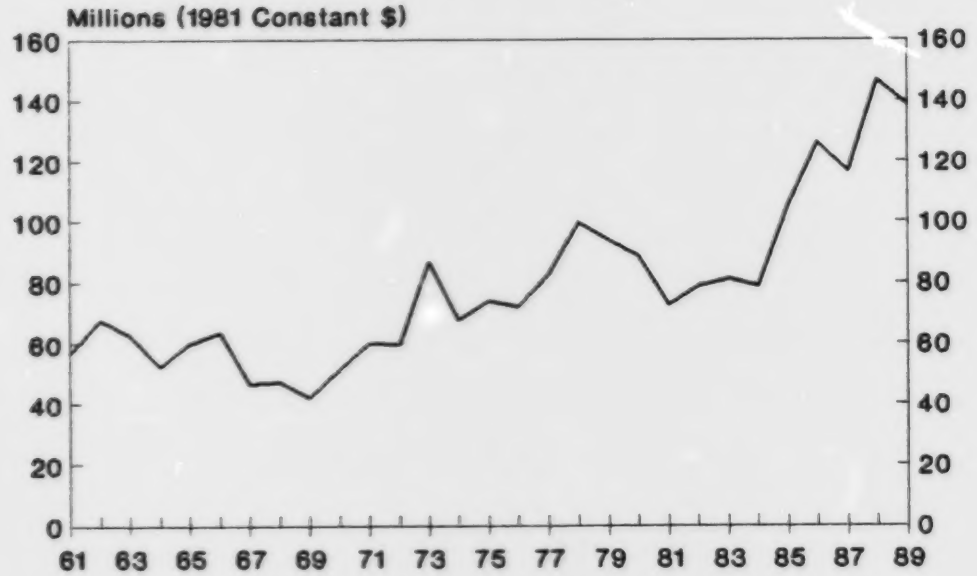
Statistics on tourist visitation are collected by the Prince Edward Island Department of Tourism and Parks from May 15th to October 31st each year when most tourist visits to Prince Edward Island take place. These statistics indicate that in the 1989 tourism season 216,400 tourist parties arrived by automobile, and 33,300 by air, which was an all-time record. The Department of Tourism and Parks' statistics show that a total of 744,000 tourists visited Prince Edward Island in 1989 by all modes of travel. To put this in perspective, it should be remembered that the population of the Island in 1989 was 130,000. Tourist expenditures in 1989 were valued at $98.3 million, also an all-time record. Tourist auto parties were primarily from Nova Scotia, New Brunswick, Ontario and Quebec.

v) Construction

The construction industry on Prince Edward Island is relatively large at 10.5 per cent of the provincial economy, compared to 7.8 per cent nationally (1989). The construction industry can be divided into two parts, non-residential and residential construction. In terms of expenditures, residential construction on Prince Edward Island forms almost one-half of the total value of construction activity.

Diagram 25

Gross Domestic Product in Construction
Prince Edward Island, 1961-89



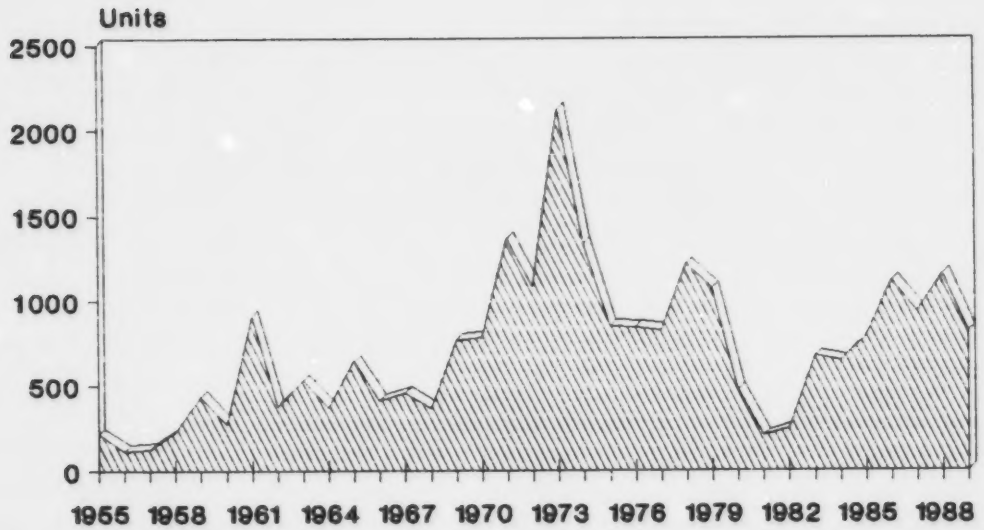
Source: Conference Board of Canada

The construction industry on Prince Edward Island has been subject to large swings in activity as can be seen in Diagram 25. It expanded rapidly in the early 1970's, during the housing construction boom of the late 1970's, and again in the late 1980's. It suffered a sharp decline during the 1980-82 recession largely because of the decline in residential construction. Housing construction has generally followed a boom and bust cycle on the Island.

Housing starts for Prince Edward Island for the period 1955 to 1989 are shown in Diagram 26. Housing construction boomed in the early 1970's peaking in 1973 when there were 2,122 housing starts. The recession of the 1980's witnessed a sharp decline in housing starts. From over 1,000 housing starts in 1979, housing construction dropped to 201 starts in 1981. In that year there were no apartments built, the first such occurrence since records were kept in 1955. Since the 1980-82 recession housing starts have exceeded the 1,000 level in both 1986 and 1988. This has been associated with net in-migration and a stronger provincial economy during recent years.

Diagram 26

Housing Starts
P.E.I., 1955-89



Source: Statistics Canada
Catalogue 64-002

Non-residential construction by institutions and government departments typically comprises 60 per cent of total non-residential construction. This activity has been more stable compared to residential construction. During the 1980's, major projects have tended to partially offset the decline in residential construction. Major projects com-

pleted during this period included the headquarters for the Department of Veteran Affairs, the Queen Elizabeth Hospital, Charlottetown Airport modernization, the Prince Edward Island Convention Centre, the Atlantic Veterinary College, and the 1991 Canada Games facilities.

vi) Manufacturing

Prince Edward Island's manufacturing industry accounts for about 5.4 per cent of Gross Domestic Product compared to almost 20 per cent of the Canadian economy. The relatively small manufacturing sector on Prince Edward Island is largely due to the lack of manufacturing associated with forestry, mining and oil and gas production found elsewhere in Canada.

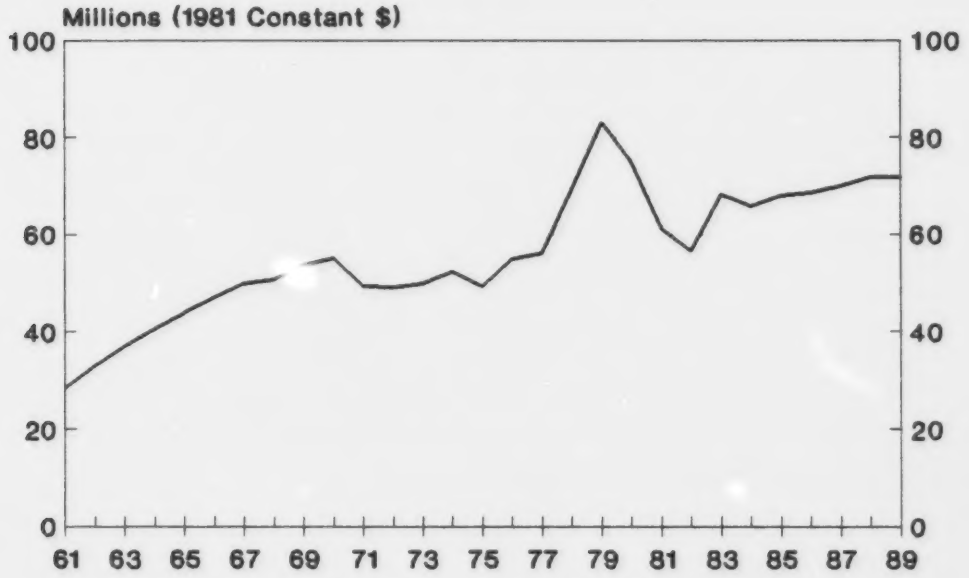
Total manufacturing shipments in 1989 were valued at $366 million. That year, the manufacturing sector employed 3,800 persons on an average monthly basis. The industry's leading component on Prince Edward Island is food processing which accounts for approximately 70 per cent of the total value of manufacturing shipments. The processing of food products on Prince Edward Island includes dairies, fish processing, vegetable (potatoes) processing, and meat plants.

Diagram 27 shows trends in the constant dollar value of Gross Domestic Product in manufacturing over the period 1961 to 1989. After slow but steady expansion in the 1960's, manufacturing stagnated until 1977. As can be seen in the diagram, the manufacturing sector on Prince Edward Island increased sharply in 1978 and 1979. At this time there was an expansion of the fish products and dairy products sectors of the Food and Beverage industry. Unfortunately during the 1980-82 recession the manufacturing industry suffered considerable setbacks from which it has only weakly recovered in subsequent years. During the 1980's several large processing plants closed. Georgetown Seafoods, Canada Packers meat packing plant, and Campbell and Burns vegetable products plant all closed during the early 1980's. The volume of manufacturing output in 1989 was still below the level achieved in 1979, though it is now slowly expanding.

Efforts to diversify the Island economy through the expansion of manufacturing have had mixed success. Printing, publishing, metal fabricating and wood products are some of the sectors that appear to have done well in recent years.

Diagram 27

Gross Domestic Product in Manufacturing
Prince Edward Island, 1961-89



Source: Conference Board of Canada

vii) Transportation, Communication, & Utilities

The transportation, communication, and utilities sector on Prince Edward Island represents approximately 9.2 per cent of the provincial Gross Domestic Product. This sector covers a broad range of activities including broadcasting, the telephone system and other communications, electrical generation and distribution, water utilities, trucking, shipping, and air transport.

Prince Edward Island is linked to the mainland by three ferry systems. These ferries connect Borden, P.E.I. to Cape Tormentine, New Brunswick, Wood Islands, P.E.I. to Caribou, Nova Scotia, and Souris P.E.I. to the Magdalen Islands, Quebec. These three ferry systems transported over 2,456,000 passengers and 759,000 automobiles in 1989. Marine Atlantic's service between Borden and Cape Tormentine had the capacity to carry rail cars but railway traffic declined from 25,800 rail cars in 1976 to 1,000 rail cars in 1988, and the Island's railway system was abandoned in late 1989.

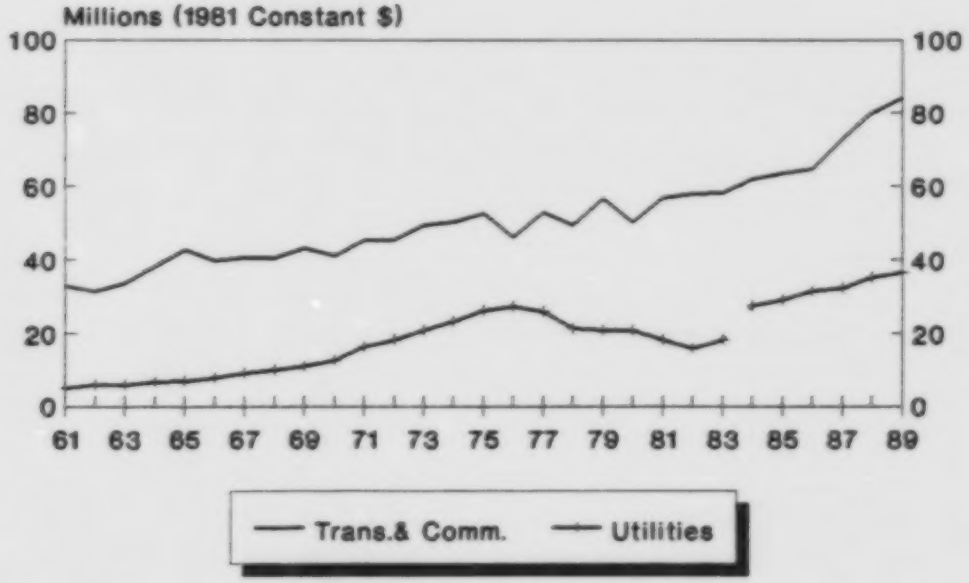
The Island's utilities sector formed 2.8 per cent of Gross Domestic Product in 1989. Prior to 1977 most electricity on Prince Edward Island was generated by the oil-fired Maritime Electric plant in Charlottetown. In 1977 a cable under the Northumberland Strait linked Prince Edward Island to the New Brunswick power system. With escalating oil prices in the late 1970's electrical generation on Prince Edward Island fell to almost zero in 1984 and 1985, the Island being totally supplied from the mainland. By 1989, local production formed 14 per cent of the Island's electricity requirements, the majority being imported from New Brunswick.

The transportation, communications and utilities sectors have followed the general trends in the provincial economy with a steady expansion throughout the 1970's. The exception has been the utilities sector for which output declined in the late 1970's in response to rising oil prices and the power link to New Brunswick.

Diagram 28 shows the Gross Domestic Product in the utilities sector and it should be noted that there is a break in the series between 1983 and 1984. The historical Gross Domestic Product data constructed by the Conference Board of Canada relies upon estimates from Statistics Canada. In this case there was a change in Statistics Canada's methodology of estimating Gross Domestic Product in the electric power system industry resulting in the break.

Diagram 28

Gross Domestic Product in Trans. & Util.
Prince Edward Island, 1961-89



Source: Conference Board of Canada

The Gross Domestic Product in transportation and communications is shown in Diagram 28. It increased at a steady pace over the period 1961 to 1986. Improved tourist traffic, an upturn in economic conditions on Prince Edward Island, and larger volumes of primary production account for the growth in this sector in 1987 to 1989.

viii) Finance, Insurance, and Real Estate

The finance, insurance and real estate (FIRE) sector of the Prince Edward Island economy is comprised of a number of businesses including chartered banks, investment dealers, trust companies, credit unions, consumer loan companies, insurance agencies, real estate brokers, and property management firms. This sector accounted in 1989 for 12.8 per cent of provincial Gross Domestic Product. Monthly employment in the FIRE sector in 1989 averaged 1,500 persons. According to Conference Board of Canada data, 55 per cent of Gross Domestic Product in FIRE is attributable to imputed rent on owned property. In the measurement of Gross Domestic Product, there are "non-market" activities that are considered productive and parallel market activities. This occurs in the case of owner occupied housing where there is no payment for the rental of the dwelling, but there is a value in the services provided equivalent to the net income that would be derived from renting the property commercially. Imputed rent is based upon such a valuation.

The finance, insurance and real estate sector tends to follow the economic fortunes of the Island economy and the Gross Domestic Product attributable to this sector is shown in Diagram 29. Gross Domestic Product in the FIRE sector followed the trend of other service industries, declining sharply over the period 1980-1982, but otherwise expanding with the provincial economy.

ix) Trade

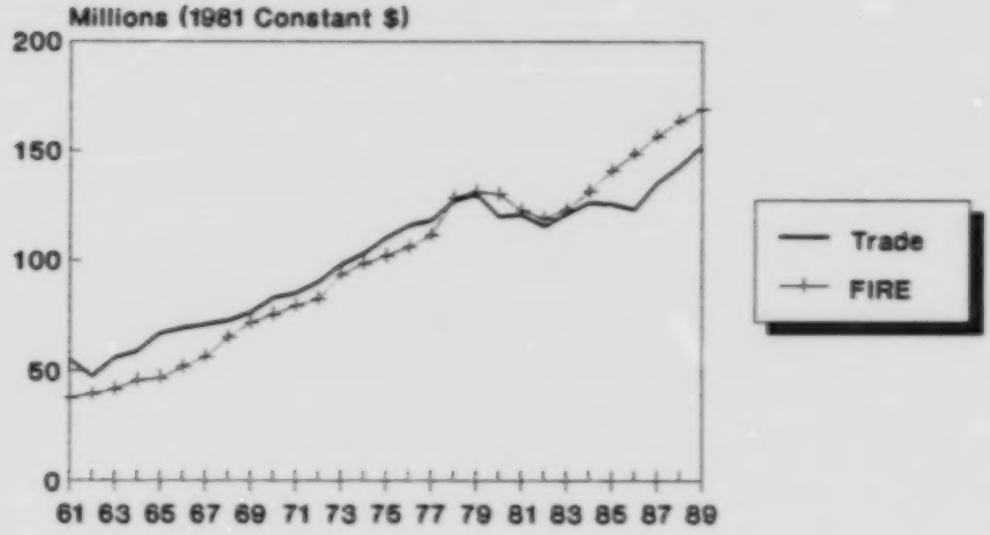
The trade sector includes both wholesale and retail trade activities. It is one of the Island's larger industries forming about 11.5 per cent of the Prince Edward Island economy, similar to the national figure. The trade sector in 1989 had an average monthly employment level of 6,700 persons. Wholesale trade includes the usual activities of wholesaling and also the handling and shipping of primary products such as potatoes.

Retail sales on Prince Edward Island totaled $732 million in 1989. The largest component was sales by motor vehicle dealers which in 1989 valued $152.3 million, or 20.8 per cent of the total.

Trade is another sector which follows the general economic activity of the Island. Diagram 29 shows the Gross Domestic Product for the trade sector over the 1961 to 1989 period. Prince Edward Island had almost uninterrupted growth in this sector through the 1960's and 1970's. During the 1980-82 recession retail trade in constant dollars declined sharply as consumer spending declined. New motor vehicle sales were particularly depressed in this period with constant dollar sales 41.3 per cent lower in 1982 compared to 1979. Retail sales rebounded strongly in 1983 but the value of new motor vehicles sales in constant dollars did not surpass the 1979 level until 1987.

Diagram 29

Gross Domestic Product in Trade & FIRE
Prince Edward Island, 1961-89



Source: Conference Board of Canada

Note: FIRE - Finance, Ins. & Real Estate

x) Community, Business, and Personal Services

The community, business, and personal service sector, at 21.3 per cent of Gross Domestic Product Product, is the largest single component of the Prince Edward Island economy. This sector encompasses the non-commercial service activities of education, health and welfare, as well as the commercial activities of accommodation, amusement and recreation services, food services, services to business management and personal services. The services sector is important in the employment of females as in 1986 two-thirds of the services industry labour force was female. The government presence in the

Island economy is partially included in this sector as education, health, and welfare are all government supported economic activities. The community, business, and personal services labour force by industry and sex is shown below in Table 4.

Table 4: Detailed Labour Force
Community, Business, and Personal Services
Prince Edward Island, 1986

	Male	Female	Total	Percent Female
Education & Related	1,615	2,245	3,860	58.2%
Health & Welfare	765	4,065	4,835	84.1%
Religious Organizations	220	215	435	49.4%
Amusement & Recreation	415	280	700	40.0%
Services to Business Management	690	560	1,245	45.0%
Personal Services	285	1,160	1,440	80.6%
Accommodation & Food Services	1,390	3,070	4,455	68.9%
Miscellaneous Services	690	545	1,240	44.0%
Community, Business & Personal Services Total	6,065	12,140	18,210	66.7%

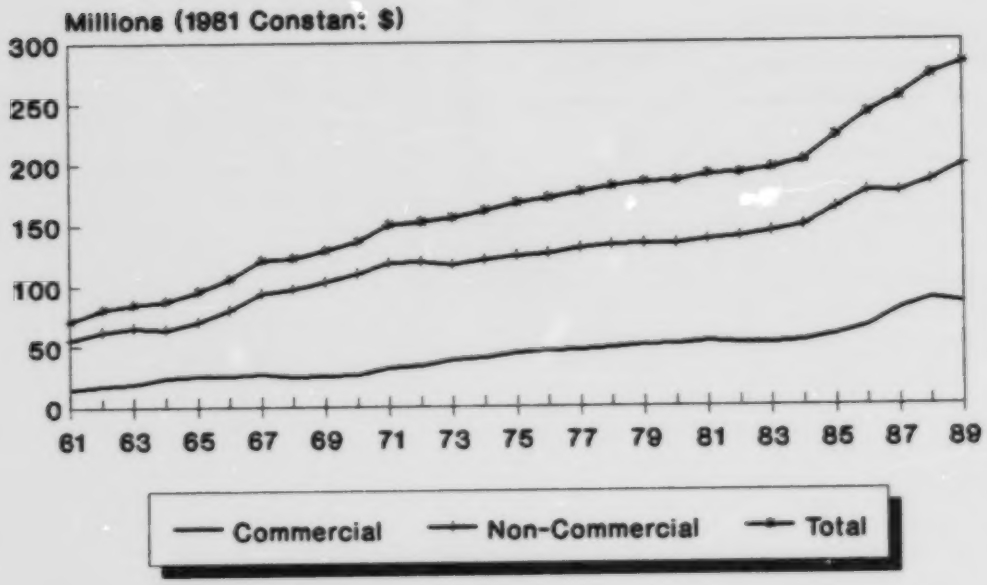
Note: Numbers may not add due to rounding.

Source: 1986 Census of Canada, Catalogue 93-152

Diagram 30 shows that the community, business and personal service sector grew steadily between 1961 and 1984 and then accelerated during the period 1985 to 1989. This sector achieved an average annual growth rate of 6.9 per cent in constant dollars over the time period 1985-89. Growth of restaurant and accommodation services, as well as some aspects of non-commercial services such as nursing care appear to be the prime factors, though annual statistical data on this sector is sketchy.

Diagram 30

Gross Domestic Product in Services
Prince Edward Island, 1961-89



Source: Conference Board of Canada

xi) Public Administration

Public administration and defense is a large element in the Island's economy, accounting in 1989 for 17.5 per cent of provincial Gross Domestic Product. Its labour force is shown in Table 5.

Table 5: Detailed Labour Force, Public Administration and Defense, Prince Edward Island, 1986

	Male	Female	Total	Percent Female
Federal Administration	2,685	1,610	4,300	37.4%
Defense Services	1,335	350	1,680	20.8%
Other Federal Services	1,355	1,260	2,620	48.1%
Provincial Administration	1,170	1,400	2,570	54.5%
Local Administration	400	200	600	33.3%
Total Public Administration & Defense	4,265	3,205	7,475	42.9%

Source: Statistics Canada, Census

The largest employer in this sector is the federal government, which has a labour force of 4,300. The CFB Summerside airbase has been a major employer with 1,300 military and non-military personnel in 1988. The other significant federal government department in Prince Edward Island is the head office of the Department of Veteran Affairs in Charlottetown which comprises approximately one-third of the total federal government employment in Prince Edward Island. Other significant federal activity include the National Park, Agriculture Research, Employment and Immigration, the Royal Canadian Mounted Police, and the Atlantic Canada Opportunity Agency. The federal government has announced that it will close the airbase over the 1990 to 1992 period. Closure of the airbase will be a significant loss for the the Island economy, but particularly for the economy in the Summerside area.

Table 6: Public Administration and Defense as Percentage of Gross Domestic Product, Canada & the Provinces, 1989

Newfoundland	11.2%
Prince Edward Island	17.5%
Nova Scotia	13.3%
New Brunswick	9.8%
Quebec	5.9%
Ontario	5.4%
Manitoba	7.0%
Saskatchewan	5.7%
Alberta	5.2%
British Columbia	5.6%
Canada	6.0%

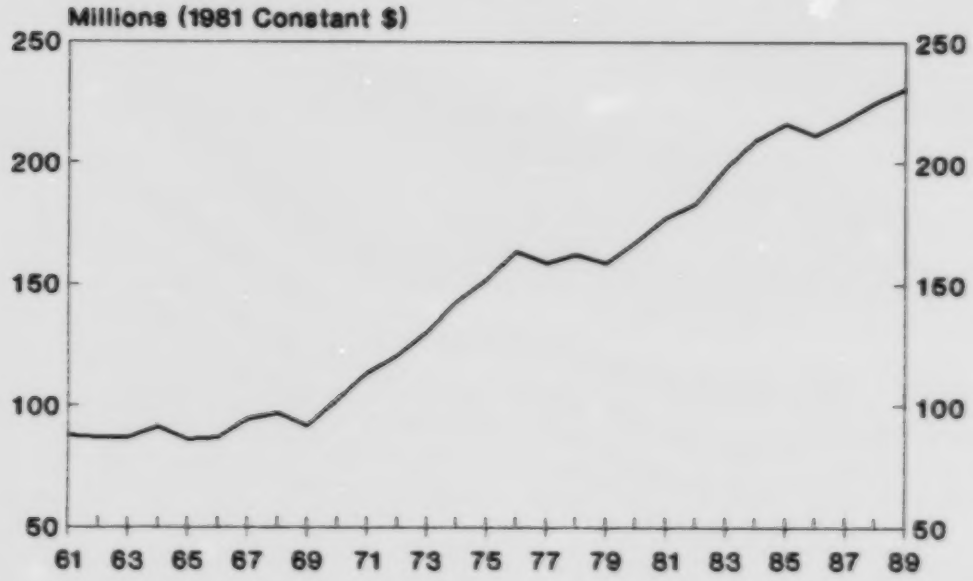
Source: Conference Board of Canada

The direct contribution of public administration and defense to Gross Domestic Product for each province in 1989 is shown in Table 6. Prince Edward Island has the highest proportion of Gross Domestic Product in this sector at 17.5 per cent, and Nova Scotia the second highest proportion at 13.3 per cent.

The contribution of government to the Island's economy is far larger than simply employment in public administration because of the impact of government expenditures on other areas of the economy. This is discussed in Section 6 "Importance of Government to the Prince Edward Island Economy".

Diagram 31

Gross Domestic Product in Public Admin
Prince Edward Island, 1961-89



Source: Conference Board of Canada

Diagram 31 shows the Gross Domestic Product in public administration over the period 1961 to 1989. As can be seen, there have been two periods of strong growth in public administration. The first period was in the early 1970's and was associated with the introduction of the Comprehensive Development Plan, increased provincial expenditures on health and education, and other factors. The Comprehensive Development Plan was a federal-provincial agreement providing funding for economic development and was implemented from 1969 to 1984. Federal expenditures on goods and services in constant dollars on Prince Edward Island increased by 10.8 per cent per year between 1971 and 1976. Between 1978 and 1981 federal spending on goods and services on Prince Edward Island fell into an absolute decline in constant dollars. This decline contributed to the severity of the downturn in the Prince Edward Island economy in this period. In addition federal transfers to the provincial government were seriously reduced during the latter phase of the Comprehensive Development Plan.

The second period of expansion in public administration occurred during the years 1981 to 1985. This increase was largely the result of the movement of the headquarters of the federal Department of Veteran Affairs to Charlottetown in this period. Pressure on provincial finances also eased in those years with the re-negotiation of Economic and

Regional Development Agreements (ERDA) and with the growth of own source provincial revenues from an improved economy. Since 1985 the public administration sector has shown very little overall growth. Federal government restraint has reduced federal government employment on the Island and increased employment by the provincial government has tended to offset these reductions.

c. Concluding Comments

Clearly the service sectors and public administration have become major components of the economy today. The contribution of agriculture, fishing, and manufacturing activities based on primary industries, coupled with tourism is approximately 25 per cent of the total Island economy.

The overall level of performance of the Island economy since 1971 has been very similar to the nation's with upswings in times of prosperity and downturns during weaker times. Primary sector production has grown significantly, largely from expansion of potatoes, lobster and mussels. The manufacturing sector remains small by national standards.

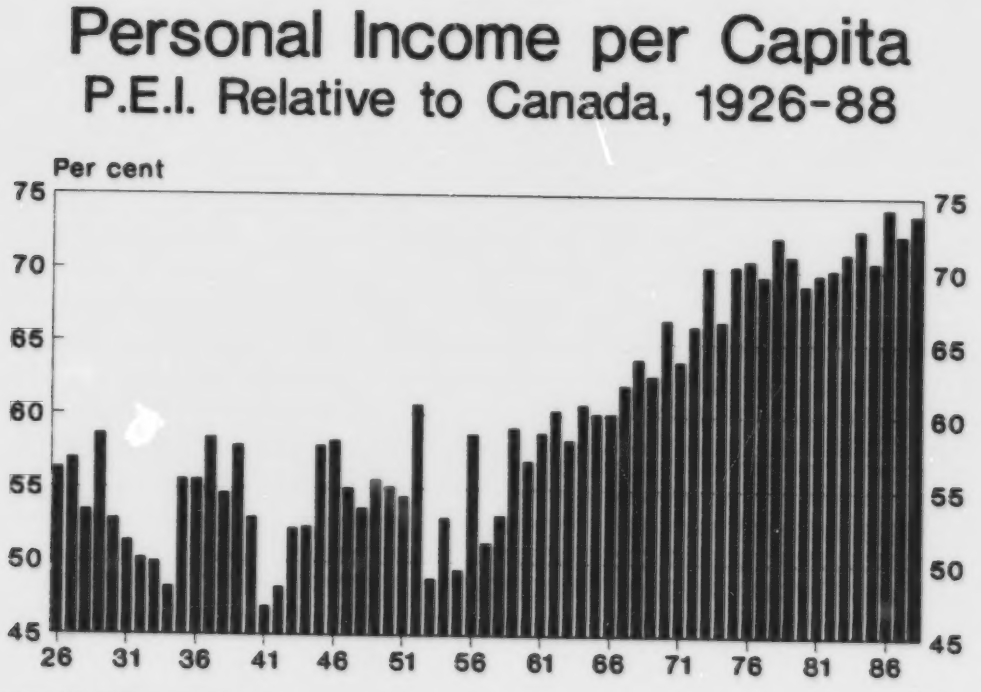
The relative importance of the primary sectors has diminished over the long term as the economy has become more diversified and oriented to service sectors.

5. INCOME OF ISLANDERS

a. Introduction

During the past 30 years, changes in the industrial structure of the economy, coupled with government programs to support incomes have brought about a significant improvement in the standard of living of the inhabitants of Prince Edward Island, both in absolute terms and relative to the national average. Yet Islanders continue to have one of the lowest average levels of income amongst the provinces of Canada.

Diagram 32



Source: Statistics Canada
Catalogue 13-213

Personal income, which comprises all incomes received by persons, is an important indicator of economic progress. Diagram 32 shows personal income per capita on Prince Edward Island as a percentage of Canada's per capita personal income, for the period 1926 to 1988. Over this time period there have evidently been considerable improvements in Islanders' income standards. One can see that incomes per capita from 1926 to 1956 were both low and subject to extreme annual swings. The high dependence upon farm conditions caused this variability. The 1960's was clearly the decade of the greatest growth in personal income per capita (relative to Canada), rising from under 55 per cent in the late 1950's to 66.1 per cent in 1970. The wide swings in personal income

per capita were also not as extreme in the 1960's as they had previously been. During the 1970's, the relative increase was still significant, although the rate of growth was down sharply from that of the previous decade. The 1980's, after the 1980-82 recession, witnessed only modest relative growth of per capita incomes relative to the Canadian average. In 1988, the most recent year for which data is available, personal income per capita on Prince Edward Island was 74.2 per cent of the Canadian average.

Prior to the 1960's, when the Islander's personal income per capita was 50 to 55 per cent of the Canadian average, net farm income formed about 20 per cent of total personal income. Wide swings in personal income per capita were primarily due to variations in the value of the potato crop. In the 1960's and 1970's the economy was increasingly reliant on wages and salaries and thus incomes have been far more stable. In addition, programs such as Unemployment Insurance have added to income stability.

b. Components of Personal Income

Changes in the composition of personal income over the period 1951 to 1988 can be seen in Table 7 which displays the percentage distribution of personal income in the periods 1951 to 1960 and 1981 to 1988 for Prince Edward Island and Canada. Wages, salaries, and supplementary labour income are the largest component of personal income comprising 53.4 per cent of the total for Prince Edward Island over the period 1981 to 1988. Transfer payments from both the federal and provincial governments, forming 23.5 per cent of personal income over the same period, are the second most important source of income for Islanders. In comparison with Canada, Prince Edward Island has a much lower proportion of personal income from wages and salaries and a higher proportion in government transfers.

Table 7: Percentage Distribution of Personal Income P.E.I. & Canada, 1951-60, & 1981-88

	Prince Edward Island		Canada	Canada
	1951-60	1981-88	1951-60	1981-88
Wages, & Salaries	43.7%	53.4%	66.7%	65.0%
Net income, farmers	15.9%	3.2%	5.6%	0.9%
Uninc. bus. inc.	15.8%	8.6%	12.8%	6.3%
Int., Div.& Inv. Inc.	4.9%	10.7%	6.4%	13.5%
Government Transfers	15.4%	23.5%	8.6%	14.3%
Personal Income.	100.0%	100.0%	100.0%	100.0%

Source: Statistics Canada Catalogue 13-213

i) Wages and Salaries

Total wages and salaries, the largest component of personal income, totaled $980 million on Prince Edward Island in 1988. This represents 52.7 per cent of total personal income compared to 64.4 per cent for Canada as a whole. The relatively low proportion of wages and salaries in personal income on Prince Edward Island is due to the relatively low wages paid in Island industries. The prevalence of part-year work on Prince Edward Island also accounts for the lower proportion of wages and salaries in personal income.

Table 8: Average Weekly Earnings P.E.I. and Canada, 1989

Industry Group	PEI	Canada	PEI as % of Canada
Manufacturing	$368.00	$572.93	64.2%
Construction	$414.70	$598.55	69.3%
Trans. & Comm.	$507.76	$621.06	81.8%
Trade (Wholesale, Retail)	$283.15	$357.54	79.2%
Finance (FIRE)	$450.39	$531.93	84.7%
Services (CBPS)	$370.45	$409.57	90.4%
Public Admin.	$576.66	$621.57	92.8%
INDUSTRIAL AGGREGATE	$400.82	$486.87	82.3%

Source: Statistics Canada Catalogue 72-001

Table 8 compares average weekly earnings in Prince Edward Island industrial sectors (excluding agriculture) with the same sectors in Canada. Statistics Canada's **Survey of Employment, Earnings, and Hours** calculates average weekly earnings by industry for hourly rated and salaried employees. These figures indicate that Prince Edward Island's weekly earnings were only 82.3 per cent of the Canadian industrial aggregate. For manufacturing, Island wages were 64.2 per cent of the Canadian figure. This is related to the lack of processing activities related to such primary industries as mining, petroleum, and forestry. Comparisons are difficult to make in each of the sectors since the composition of industrial sectors varies considerably from region to region, but wages on Prince Edward Island appear to be relatively low in manufacturing and construction.

Prince Edward Island has the lowest average weekly earnings in comparison with all other Canadian provinces. In 1989, weekly earnings in other Atlantic Canada provinces compared to Canada were 95.7 per cent in Newfoundland, 88.9 per cent in Nova Scotia,

and 90.9 per cent in New Brunswick. The major difference between Prince Edward Island and other Atlantic Canada provinces is again the lower wages paid in manufacturing and construction.

ii) Farming Income

Net income of farmers has formed a declining percentage of personal income in both Prince Edward Island and Canada over the years. By the period 1981 to 1988 it accounted for only 3.2 per cent of total personal income on Prince Edward Island compared to 15.9 per cent in the period 1951 to 1960. In Canada, net income of farmers contributed to only 0.9 per cent of personal income in 1981 to 1988.

Table 9: Net Farm Income
P.E.I., 1979-1989, ($ Millions)

Year	Farm Cash Receipts	- Expenses	+ Value of Inventory Change	= Net Income
1979	$120.8	$92.0	$2.1	$30.9
1980	140.1	107.6	-8.2	24.3
1981	189.6	129.4	20.8	81.0
1982	161.9	139.8	0.8	22.9
1983	172.3	147.0	-4.9	20.4
1984	191.2	153.3	17.8	55.7
1985	171.3	158.1	1.2	14.4
1986	185.5	159.5	-3.9	22.1
1987	212.6	161.7	-8.0	42.9
1988	206.3	170.8	8.8	44.3
1989	256.1	178.3	-5.6	72.2

Source: Statistics Canada Catalogue 21-603E

Farm income on Prince Edward Island has substantial annual variations. Table 9 displays net farm income (as defined by the Agriculture Division, Statistics Canada) for the period 1979 to 1989 and shows that income in the past 10 years has ranged from a low of $14.4 million in 1985 to a record high of $81.0 million in 1981. The major source of these swings in net farm income is the swings in the value of potato harvests. Table 9 shows the value of the physical change in inventory between the beginning and end of the year. The Island's potato crop is harvested in the fall and is marketed in the period November through to June of the following year and, therefore, a large proportion of the potato crop is held in inventory at year-end. As can be seen from the

value of inventory change series, this had a considerable positive impact on net farm income in 1981 and 1984.

iii) Government Transfers

Transfers from government to persons have increased substantially over the period 1951 to 1988. In 1988 government transfers to persons valued $434 million. Transfers accounted for 23.5 per cent of personal income on Prince Edward Island in the period 1981 to 1988 compared to an average of 15.4 per cent over the period 1951 to 1960. Seventy eight per cent of federal government transfers to persons in 1988 consisted of Old Age Security and Unemployment Insurance benefits. The increased transfers in the early 1970's are attributable in large part to significant increases in Unemployment Insurance benefits.

Table 10: Government Transfers as Percentage of Personal Income Canada and the Provinces, 1988

	Government Transfers	UI Benefits as % of Gov't Transfers
Newfoundland	29.1%	32.6%
Prince Edward Island	23.3%	31.8%
Nova Scotia	18.7%	19.7%
New Brunswick	21.9%	25.6%
Quebec	16.2%	16.9%
Ontario	11.1%	10.3%
Manitoba	15.5%	12.4%
Saskatchewan	18.5%	10.2%
Alberta	13.3%	13.3%
British Columbia	14.8%	17.6%
CANADA	14.1%	15.1%

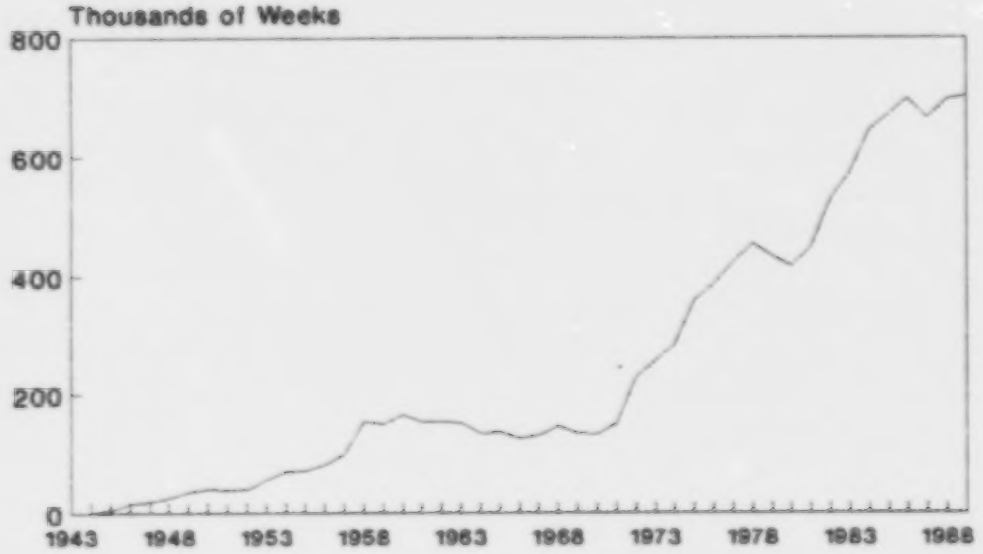
Source: Statistics Canada Catalogue 13-213

Table 10 shows government transfers as a percentage of personal income for Canada and the provinces. Government transfer payments to persons make up higher proportions of personal income in the Atlantic provinces when compared to the rest of Canada. As can be seen in the second column of Table 10, much of this difference (although not all) is due to the level of Unemployment Insurance payments in Atlantic Canada. For example, Unemployment Insurance forms about 32 per cent of government transfers to persons in both Prince Edward Island and Newfoundland compared to 10 per cent in Ontario.

Dependence upon Unemployment Insurance benefits has grown significantly since 1971 when the program was enlarged. Diagram 33 shows the total number of weeks of benefit payments paid to Islanders under the Unemployment Insurance program from 1943 to 1989. The diagram indicates that during the 1950's and 1960's weeks of benefit payments were in the order of 140,000 to 150,000 weeks per year. By 1986 they had increased to 696,700 weeks, which is approximately their present level.

Diagram 33

Weeks of Unemployment Insurance Benefits Prince Edward Island, 1943-89



Source: Statistics Canada
Catalogue 73-202S

The value of Unemployment Insurance benefits paid on Prince Edward Island in 1988 was $138 million. By comparison old Age Security payments contributed $98 million to Island incomes in 1988. Table 11 compares income from Old Age Security (OAS) and the Guaranteed Income Supplements (GIS) across provinces. Old Age Security benefits are paid to all Canadians aged 65 years and over who meet minimum residency requirements. Guaranteed Income Supplements are based on a means-test and are paid only to pensioners who have little or no income above OAS. Prince Edward Island has the highest value of OAS/GIS per capita of any province at $763 in 1988. The reasons for this are twofold. Firstly, Prince Edward Island has a larger than average proportion of its population over 65 years of age. This ratio is 12.7 per cent, compared to 10.9 per cent in Ontario, 8.1 per cent in Alberta, and 10.7 per cent for Canada in

total. Secondly, as the Guaranteed Income Supplement component of Old Age Security is related to incomes, the low income situation for the Island's elderly increases their dependence on GIS. This situation is even more pronounced in Newfoundland. The table shows that the Newfoundland elderly received $6,571 per person over 65 in the form of OAS/GIS, compared to $5,976 for Prince Edward Island and $5,142 for Canada in total.

Table 11: OAS/GIS Per Capita & Per Pop 65+
Canada & the Provinces, 1988

	Per Capita	Per Pop 65+
Newfoundland	$603	$6,571
Prince Edward Island	$763	$5,976
Nova Scotia	$693	$5,668
New Brunswick	$676	$5,840
Quebec	$584	$5,589
Ontario	$540	$4,789
Manitoba	$669	$5,179
Saskatchewan	$689	$5,248
Alberta	$433	$5,036
British Columbia	$610	$4,777
CANADA	$571	$5,142

Source: Statistics Canada Catalogue 13-213

Dependence of the elderly on the universal Old Age Security program can also be ascertained from Table 12. The low income situation of Newfoundland and Prince Edward Island is clearly apparent as is the consequent high dependence of elderly on government transfers that this produces. In the "have" provinces the elderly depend on OAS/GIS for approximately 30 per cent of their income on average, but in Newfoundland it is 57.5 per cent and Prince Edward Island, 48.6 per cent.

Table 12: Total Income of Elderly, and OAS/GIS Dependence Canada & the Provinces, 65+ Population, 1985

	Total Income	OAS/GIS as Per Cent of Total Income
Newfoundland	$10,022	57.5%
Prince Edward Island	$10,876	48.6%
Nova Scotia	$12,423	40.3%
New Brunswick	$11,479	45.0%
Quebec	$12,009	40.8%
Ontario	$15,387	27.2%
Manitoba	$12,909	35.6%
Saskatchewan	$13,974	32.9%
Alberta	$14,875	29.2%
British Columbia	$14,429	29.1%
CANADA	$13,854	32.5%

Source: Statistics Canada Catalogues 13-213 and 93-114

The importance of the Guaranteed Income Supplement is directly related to lack of alternative income for the elderly. In 1981, 40.9 per cent of Old Age Security recipients in Newfoundland received full GIS. To receive full GIS means that one has no other means of support. The figure for Prince Edward Island was 24.1 per cent. By comparison, only 9.9 per cent of Old Age Security recipients in Ontario were in this situation, and the national average was 15.6 per cent.

Table 13: Percentage of Population 65+ by County Prince Edward Island, 1986

	Male	Female	Total
Kings	11.9%	14.7%	13.3%
Queens	10.8%	14.5%	12.7%
Prince	11.0%	13.9%	12.4%
Prince Edward Island	11.0%	14.4%	12.7%

Source: Statistics Canada, Census

The distribution of the elderly population of Prince Edward Island across the Province is fairly uniform although Kings County, as can be seen in Table 13, is

somewhat 'older' than Prince or Queens Counties. This suggests that Old Age Security payments are spread fairly evenly throughout Prince Edward Island. However, there are notable concentrations of elderly persons in the Province. The City of Charlottetown is a case in point with 21.5 per cent of its population 65 and over. Pension income tends to be an important contribution to these communities.

iv) Other Income

Two other components of personal income are unincorporated business income and interest, dividend, and miscellaneous investment income. In 1988, unincorporated business income totaled $163 million, and interest, dividend, and miscellaneous investment income totaled $203 million. As could be seen in Table 7, income from unincorporated business in Prince Edward Island and Canada has shown slow growth over the period 1951-60 to 1981-88 and its contribution to personal income has declined. The income of fishermen is included in this category and in 1988 it formed approximately 50 per cent of the total for Prince Edward Island.

Interest, dividend, and miscellaneous investment income over the 1951-60 to 1981-88 period has more than doubled its percentage contribution to personal income in both Canada and Prince Edward Island, as identified in Table 7. Very little statistical information is available for both of these sources of income, but the increase is presumably linked to high interest rates that have prevailed in recent years.

c. Interprovincial Comparisons

The relative increase in prosperity in the Prince Edward Island since the 1960's still leaves the Province below the national average. The following table shows some measures of relative prosperity for Canada and the provinces.

Table 14: Income Distribution: Interprovincial Comparisons (Canada = 100), 1988

	Personal Disposable Income per Capita	Personal Income per Capita	Gross Domestic Product per Capita
Newfoundland	75.7%	71.0%	59.4%
Prince Edward Island	78.7%	74.2%	59.0%
Nova Scotia	85.0%	82.6%	72.2%
New Brunswick	80.2%	77.3%	70.6%
Quebec	92.1%	95.0%	93.3%
Ontario	111.6%	112.1%	113.1%
Manitoba	91.5%	88.1%	85.2%
Saskatchewan	84.2%	80.8%	78.8%
Alberta	104.6%	102.6%	114.3%
British Columbia	100.1%	98.5%	98.4%
CANADA	100.0%	100.0%	100.0%

Source: Statistics Canada Catalogue 13-213

As commented upon, Prince Edward Island's personal income per capita is the second lowest in Canada, ahead only of Newfoundland. The major reason for Prince Edward Island's relatively low income level stems from its low value of production per capita as measured by Gross Domestic Product per capita. As can be seen in Table 14, in 1988, Prince Edward Island and Newfoundland were about equal at 59 per cent of the Canadian average in this regard. Part of the lower income measure for Prince Edward Island is due to lower wages paid in Island establishments. As discussed above, the average weekly earnings on Prince Edward Island in non-agricultural industries in 1989 were 82.3 per cent of the national average, the lowest average weekly earnings amongst the provinces. Personal income measures are also lower because the number of weeks worked by Islanders' is less than the national average. This was discussed in Section 3 "Labour Force Trends".

The income differences among the Atlantic Canada provinces and Canada narrows

when comparing personal disposable income. Table 14 shows that Prince Edward Island's personal disposable income per capita in 1988 was 78.7 per cent of the national average, compared to 74.2 per cent for personal income. This improvement is caused by the influence of the progressive income tax system.

There is a considerable difference between Gross Domestic Product per capita and personal income per capita for Prince Edward Island and Canada. Prince Edward Island receives 74.2 per cent of personal income per capita and yet only produces 59.0 per cent of Gross Domestic Product per capita. This difference is an indicator of the significant transfer payments supporting income levels on the Island.

d. Income Distribution

Table 15 displays average family income levels for Canada and the provinces in 1988. Average family income on Prince Edward Island in 1988 was the lowest in Canada at $34,535, relative to $46,185 for Canada. The main difference between Prince Edward Island and Newfoundland (which is the lowest by other income measures) is the larger family size in Newfoundland.

Table 15: Average Family Income
Canada & the Provinces, 1988

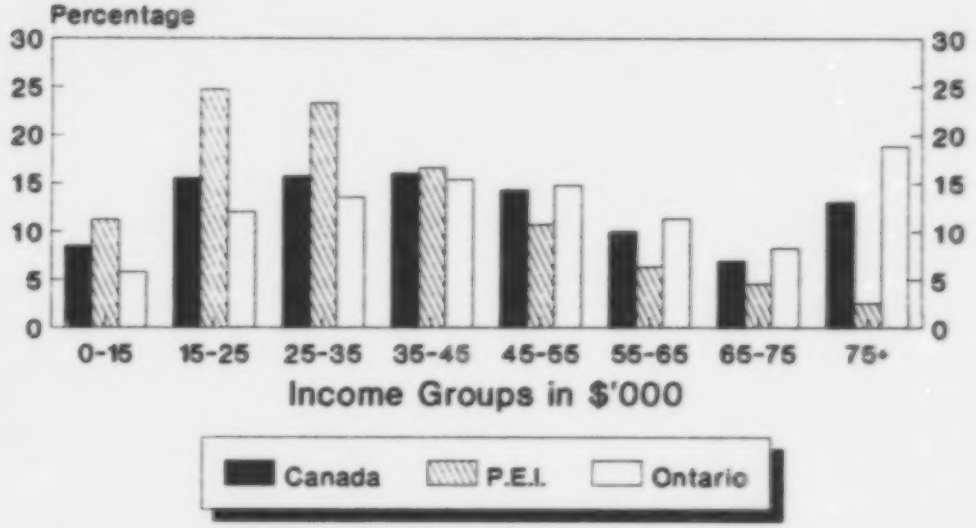
Newfoundland	$36,076
Prince Edward Island	$34,535
New Brunswick	$37,308
Nova Scotia	$39,671
Quebec	$41,328
Ontario	$52,764
Manitoba	$43,121
Saskatchewan	$40,357
Alberta	$46,283
British Columbia	$45,264
CANADA	$46,185

Source: Statistics Canada Catalogue 13-207

Diagram 34 shows the percentage distribution of families by income group for Prince Edward Island, Ontario, and Canada. Prince Edward Island has proportionately more families in the income ranges $15,000 to $35,000 than the rest of Canada, while the family income groups $35,000 to $55,000 are comparable. Significant differences occur at the highest family income group of $75,000 and over. Thirteen percent of Canadian families are in this income range, Ontario has 18.8 per cent of families, and Prince Edward Island has only 2.6 per cent of such families.

Diagram 34

Percentage Distribution of Families by Income Groups, 1988



Source: Statistics Canada
Catalogue 13-208

Low average incomes on Prince Edward Island have not necessarily resulted in a prevalence of poverty. Table 16 shows the incidence of low income amongst families in Canada and the provinces. Statistics Canada measures low income incidence as the number of those families or unattached individuals with 58.5 per cent or more of their income spent on food, shelter, and clothing. The table shows that the incidence of low income families on Prince Edward Island at 10 per cent is one of the lowest in Canada, second only to Ontario. When unattached individuals are considered, Prince Edward Island's incidence of low income individuals is about equal to Canada, although it has the lowest incidence east of Ontario. These statistics suggest that, relative to Canada, Prince Edward Island has a low average income mainly due to a lack of high income earners.

Table 16: Incidence of Low Income Among Families and Unattached Individuals, Canada & the Provinces, 1988

	Families	Unattached Individuals
Newfoundland	15.5%	35.1%
Prince Edward Island	10.0%	33.2%
Nova Scotia	10.8%	39.4%
New Brunswick	12.6%	35.7%
Quebec	13.5%	42.7%
Ontario	7.5%	26.9%
Manitoba	11.1%	33.5%
Saskatchewan	13.6%	29.3%
Alberta	10.7%	30.8%
British Columbia	10.1%	30.6%
CANADA	10.5%	33.1%

Source: Statistics Canada Catalogue 13-207

e. Concluding Comments

Prince Edward Island's income growth over the past 30 years has led to a narrowing in the gap between Prince Edward Island's and Canada's per capita income levels. The growth of employment opportunities outside farming has led to a higher and more stable level of personal income. The importance of government transfers to personal income remains high partially because of the age structure (over 65), the Island's dependence on Unemployment Insurance benefits, and generally low levels of production and earnings. With lower average weekly earnings and seasonal employment this aspect of the Island economy is likely to persist.

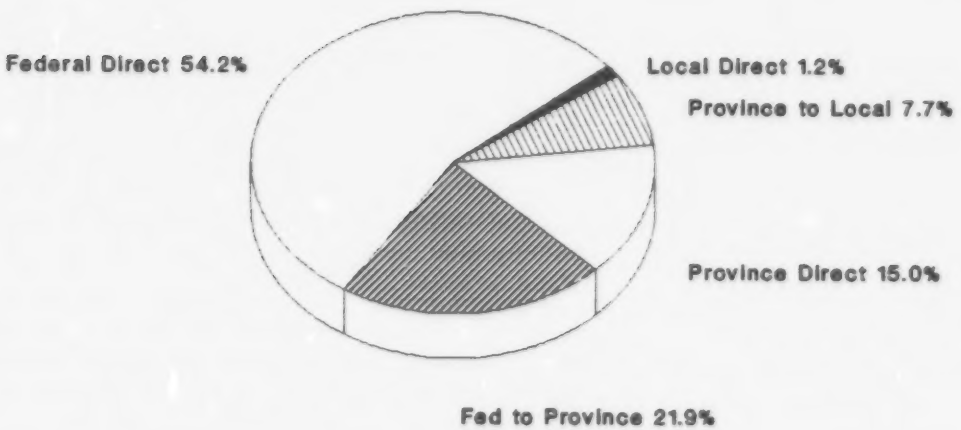
6. IMPORTANCE OF GOVERNMENT TO THE ISLAND ECONOMY

a. Introduction

The consolidated government sector consists of federal activities, the provincial government and local government. For the purpose of this discussion local government includes both municipalities and school boards. Diagram 35 provides a breakdown of government expenditures on Prince Edward Island in 1988 by level of government. It indicates that of the government "spending pie", 54.2 per cent is paid directly from the federal government to Island persons and businesses, and 21.9 per cent is paid from the federal government to the provincial government. Thus 76.1 per cent of all government activity on Prince Edward Island is funded by the federal government. Provincial government expenditures add up to 44.6 per cent of all government expenditures. However, given the large federal payment to the province, only 22.7 per cent of the total government expenditure comes from provincial revenue sources.

Diagram 35

Government Expenditures
By Level of Government, P.E.I., 1988



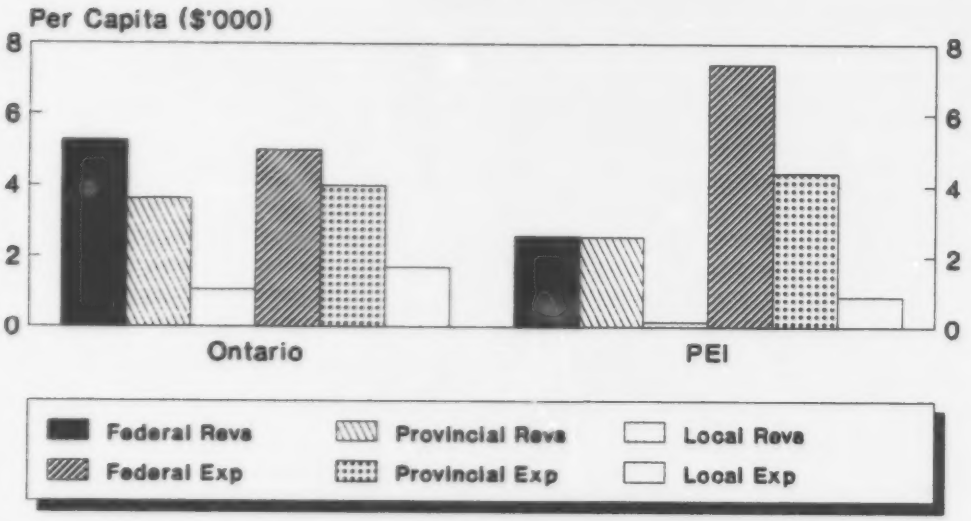
Source: Statistics Canada
Catalogue 13-213

The local level of government on Prince Edward Island forms 8.9 per cent of total government expenditures, and 7.7 per cent of that amount consists of transfers from the

Province. Of the $97 million of transfers from the Province to local government in 1988 approximately $92 million consisted of payments to school boards.

Diagram 36

Revenue & Expenditure Comparisons P.E.I. & Ontario, 1988



Source: Statistics Canada
Catalogue 13-213

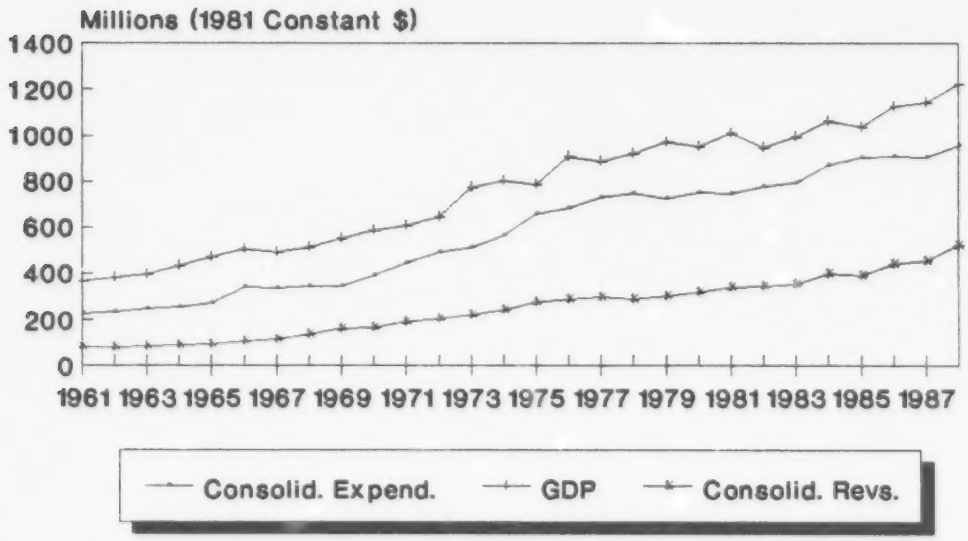
One can compare the relative importance of the various levels of government's revenue and expenditures for Prince Edward Island and Ontario in Diagram 36. It displays levels of expenditure and revenues on a per capita basis in 1988. In that year federal tax revenues from Ontario valued $5,266 per capita, compared to $2,585 for Prince Edward Island. We should note that federal customs duties, excises and sales taxes are understated with respect to Prince Edward Island, given the large volume of goods imported to the Island from other provinces which have these duties and taxes embedded in the price. Provincial own source revenues in Prince Edward Island were $2,554 per capita compared to $3,630 in Ontario. This is largely the result of low incomes and lack of natural resources on Prince Edward Island. Local government has considerably more responsibility for raising revenues in Ontario than in Prince Edward Island. Per capita revenue of $1,042 in Ontario compares to only $116 on Prince Edward Island.

On the expenditure side, federal per capita spending in 1988 on Prince Edward Island is clearly ahead of Ontario with $7,430, relative to $4,995. Prince Edward

Island's provincial expenditures at $4,340 are greater than the $3,989 of Ontario. But local expenditures per capita of $846 were significantly less on Prince Edward Island than the $1,685 local spending of Ontario. The combined provincial/local government expenditures (excluding inter-government transfers) were $4,824 per capita in Ontario, and $4,410 per capita on Prince Edward Island in 1988. The principal reason for this difference is clearly the larger responsibility for government that Ontario provides to the local level. In aggregate, government expenditures per capita are significantly higher on Prince Edward Island than Ontario as a result of federal involvement. In 1988 they were $9,984 for Prince Edward Island compared to $9,667 for Ontario.

Diagram 37

Importance of Government Relative to Gross Domestic Product, P.E.I.



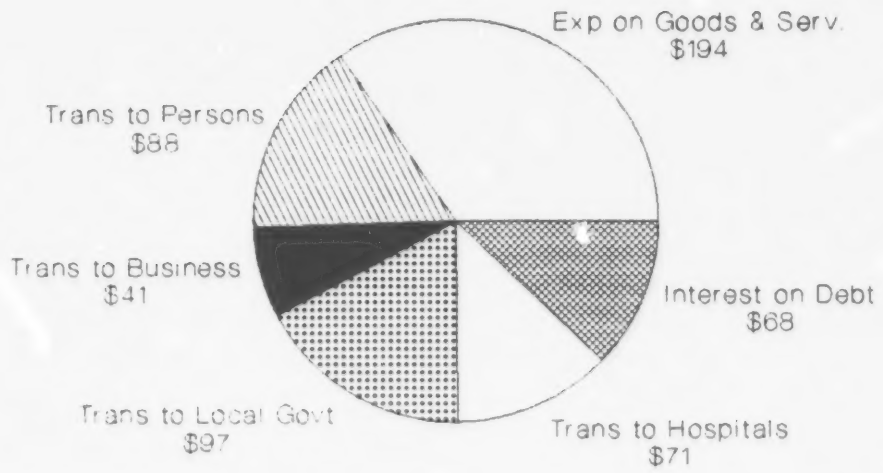
Source: Statistics Canada
Catalogue 13-213

The combined activities of government are extremely high on Prince Edward Island in relationship to the size of the economy. Diagram 37 traces total government expenditures at all levels (exclusive of intergovernmental transfers to avoid double counting), revenues from Prince Edward Island and the value of Gross Domestic Product of Prince Edward Island, all deflated by the Canadian Consumer Price Index, for the years 1961 to 1988. In 1988 Gross Domestic Product at Market Prices was $1,762 million whereas total government expenditures valued $1,372 million ($1,286 million current and $86 million capital). In total these represent 77.8 per cent of Gross Domestic Product. The same ratio for Ontario was 38.5 per cent that year.

The Diagram suggests that there is a direct correlation between Gross Domestic Product and government spending. Given the scale of government spending in relation to the economy this should not be surprising. Thus the evidence points to the expansion of government activities, largely federally funded, as a major factor determining economic growth in the Province.

Diagram 38

Provincial Government Expenditures P.E.I., 1988, (Millions $)



Source: Statistics Canada
Catalogue 13-213

A disaggregation of provincial government expenditures in 1988 is shown in Diagram 38. The largest expenditure item, $194 million consists of expenditures on goods and services. This essentially pays for the maintenance of provincial functions of which 58 per cent consists of the provincial payroll. Transfers to local government consists largely of transfers to school boards. Transfers to persons includes both social assistance and support of post secondary education.

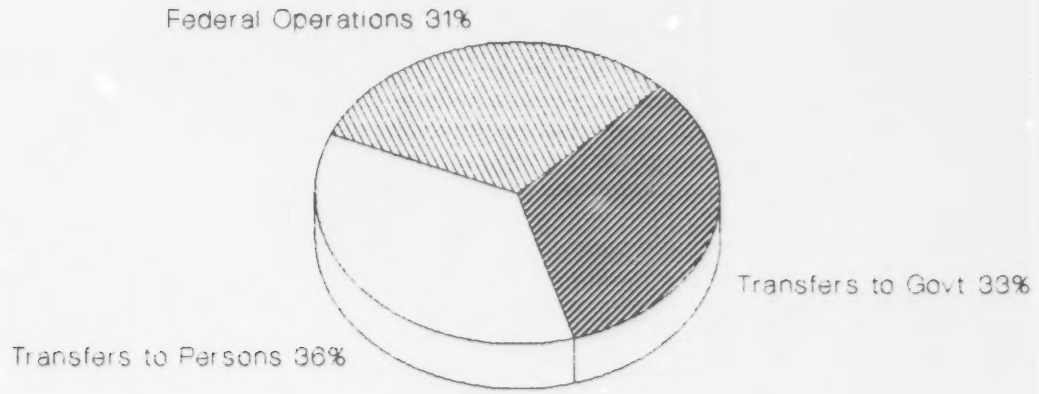
The largest provincial department in terms of staff is Health and Social Services, which employed 1,295 of the total 3,732 full time provincial staff (1988). The Hospital and Health Services Commission is responsible for payments to hospitals and physicians for medical services. Thus, the total provincial expenditure on Health, Social Services and Medical Services in fiscal year 1988/89 was $196.4 million, or 32.5 per cent of total

provincial current expenditures. The second largest area of government expenditures was education with expenditures of $124.8 million in fiscal year 1988/89. A large part of this expenditure consists of the transfers to school boards as noted above. Thus, 55 per cent of all provincial activities involve support of Health, Social Services and Education.

Whereas the ratio of government aggregate spending to provincial Gross Domestic Product is 77.8 per cent on Prince Edward Island, the ratio of all government own source revenues to Gross Domestic Product in 1988 was 41.1 per cent for Prince Edward Island. It was 39 per cent in Ontario. In other words the revenues derived from the two economies were very similar as a ratio of Gross Domestic Product. The major reason for the significant difference on the expenditure side is the system of federal transfers in Canada that support low income regions, together with the maintenance of federal functions in Prince Edward Island.

Diagram 39

Federal Government Expenditures on Prince Edward Island, 1988



Source: Statistics Canada
Catalogue 13-213

The federal programs can be divided into three general groups: transfers to support provincial government operations, transfers to support individuals and business, and direct federal functions. The distribution of federal spending between these broad areas on Prince Edward Island in 1988 is shown in Diagram 39. Thirty three per cent of

federal spending consists of payments to the provincial government, thirty six per cent is formed by transfers to persons and individuals, and thirty one per cent is to provide for federal operations on the Island. The following sections describe these expenditures in more detail.

b. Transfers to the Provincial Government

The Province of Prince Edward Island identified $281.9 million of federal current account revenues in the 1988/89 Public Accounts. This is broken down in Table 17. The total of these transfers from the federal government formed 47.0 per cent of all provincial revenues on current account in fiscal year 1988/89.

Table 17: Federal Transfers to the Prince Edward Island Provincial Government, Fiscal Year 1988/89

	$ million	% of Total Federal Transfers	% of Total Provincial Revenues
Equalization	$184.9	65.6%	30.8%
EPF (Established Programs Financing)	$44.3	15.7%	7.4%
Canada Assistance Plan	$21.9	7.8%	3.6%
Economic Devt.	$11.6	4.1%	1.9%
Extended Health Care	$6.3	2.2%	1.0%
Canada Manpower	$2.9	1.0%	0.5%
Income Tax on Electricity	$2.0	0.7%	0.3%
Other	$8.0	2.8%	1.3%
TOTAL	$281.9	100.0%	47.0%

Source: Prince Edward Island Public Accounts, 1989

By far the largest transfer in fiscal year 1988/89 was Equalization which valued $184.9 million that year. Equalization is the Province's single largest revenue source providing 30.8 per cent of all provincial revenues. This transfer is so important to the maintenance of government services that it is enshrined in principle in the Canadian Constitution which states that: "Parliament and the Government are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation".

The Equalization Program is based upon a formula which is revisited every five years when it is subject to review by federal and provincial Finance officials. The formula measures the fiscal capability of each province in terms of approximately thirty nine generally used revenue sources (such as sales tax, income taxes, liquor revenues). To the extent that a revenue base falls below the standard, as determined by the revenue base per capita of five of the ten provinces, so the federal program tops up the revenue from that source to the standard, using a national-average tax rate for that revenue. For example, the income base per capita for the Prince Edward Island's provincial income tax is 57 per cent of the five province standard. Based on the average national tax rate for provincial personal income tax, the Equalization formula makes up the Province's deficiency of $58.0 million for this revenue source. Where revenue sources are totally unavailable to Prince Edward Island, such as for oil royalties, the Province receives 100 per cent compensation in order to be raised to the five province standard.

Thus, the Equalization Program is crucial to the Province to offset the impact of low incomes and the lack of a resource base in generating provincial revenues. The overall effect of the Equalization Program is to raise the province's fiscal capacity from 64 per cent of the national average to 92 per cent of the national average. As the formula provides no support for Provinces whose fiscal capacity is above the standard, Ontario, Alberta and British Columbia receive no money under the Equalization Program. On a per capita basis Prince Edward Island and Newfoundland are the most dependent upon Equalization of all provinces, receiving $1,380 and $1,485 respectively per capita in fiscal year 1988/89. Such dependence is high throughout the Atlantic provinces.

The revenues from the Equalization program are expended entirely at the discretion of the province given that the purpose of the program is to supplement revenues. The EPF program (Established Programs Financing) is another federal fiscal transfer which though not tied to a cost sharing formula, is designed to support health care and post-secondary education across provinces. The EPF program forms approximately 16 per cent of federal transfers to the Province in terms of cash. These payments are provided to all Provinces on the basis of a formula that is an equal dollar contribution per capita less the value of a set number of points of provincial personal and corporate income tax (including any associated Equalization) which the federal government ceded to the provinces. The basic contribution is adjusted each year by the growth in the Canadian Gross National Product, although in recent years the federal government has arbitrarily reduced this growth factor to help reduce the federal deficit.

The Canada Assistance Plan provides cost shared funds, essentially at 50 per cent, for eligible provincial social welfare programs.

Diagram 40

Expenditures on Economic Development
Government of P.E.I., 1951-86

The Economic Development transfers attract a great deal of attention although in fiscal year 1988/89 they valued only 4.1 per cent of all federal transfers to the provincial government. Diagram 40 traces the growth path of provincial economic development expenditures in constant dollars. One can see the major upshift in development funding that took place in the 1970's. This was the period of the Comprehensive Development Plan which occurred over the period 1969 to 1984. At its peak, federal support was based on a 90 per cent cost sharing arrangement. The rapid decline in federal support towards the end of the plan is very evident in this diagram. Today, large sections of the provincial economic development programs continue to rely, to a degree, on federal support under federal-provincial Economic and Regional Development Agreements (ERDA).

In view of federal support to the Province it is able to provide services roughly comparable to other provinces. Expenditures per capita, as distinct from per dollar of Gross Product, are not so different from elsewhere in Canada, as can be seen in Table 18. A large part of the differences in spending per capita between provinces can be explained in terms of different rates of remuneration, different levels of tax effort and different levels of deficit spending.

Table 18: Provincial Expenditures Per Capita, Fiscal Year 1986-87

	Expenditures Per Capita
Newfoundland	$4,680
Prince Edward Island	$4,218
Nova Scotia	$3,981
New Brunswick	$4,337
Quebec	$5,049
Ontario	$3,796
Manitoba	$4,784
Saskatchewan	$4,897
Alberta	$6,090
British Columbia	$4,078
ALL PROVINCES	$4,495

SOURCE: Statistics Canada, CANSIM MINIBASE

Clearly the Equalization Program is the key aspect of Provincial finances in sustaining service at comparable levels to other provinces.

c. Transfers to Persons and Business

Federal transfers to persons on Prince Edward Island valued $302 million in 1988 and transfers to business were $41 million. These transfers are displayed in the following table.

Table 19: Federal Transfers To Persons and Business, Prince Edward Island, 1988

	$ Millions
Unemployment Insurance Benefits	$138
Old Age Security Payments	$98
Pensions to Government Employees	$17
Family Allowances	$14
War Pensions	$10
Veterans Allowances	$7
Miscellaneous Personal Transfers	$18
Total Federal transfers to persons	$302
Subsidies to Agriculture	$17
Other Subsidies	$23
Capital Assistance	$1
Total Federal Transfers to Business	$41
TOTAL TRANSFERS	$343

Source: Statistics Canada Catalogue 13-213

As noted previously, one can see that federal transfers to individuals and business on Prince Edward Island are dominated by Unemployment Insurance benefits and Old Age Security payments. Unemployment Insurance benefits were the largest transfer to persons on Prince Edward Island in 1988 at $138 million. Old Age Security payments, the second largest transfer to persons on Prince Edward Island, contributed $98 million to the income of Islanders in 1988. The importance of these transfer payments in personal income was discussed in Section 5 "Income of Islanders" in this report.

Federal support to business through subsidies consists of three general groups; agricultural support, subsidies to business specifically, and losses of government enterprises. For Prince Edward Island agricultural subsidies are important, particularly with respect to assistance for dairy operators. Hog farmers and potato farmers also receive support from time to time. A large part of the subsidy to business is to support the ferry services as well as for freight assistance generally. Support of the Canadian

Broadcasting Corporation and CN Rail operations have also been important aspects of federal subsidies to federal enterprises on Prince Edward Island.

d. Federal Operations on Prince Edward Island

The total value of current expenditures on goods and services to support federal operations on Prince Edward Island in 1988 is estimated to have been $260 million. The relative importance of the expenses involved in sustaining federal activities in various provinces is shown in Table 20. The national average is 4.2 per cent of Gross Domestic Product or $985 per person.

Table 20: Federal Expenditures on Goods and Services as Percentage of G.D.P., & Per Capita, 1988

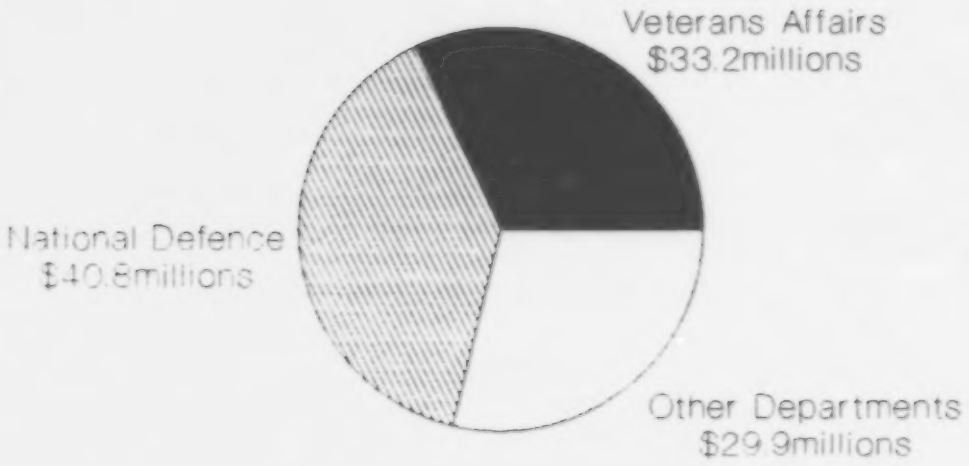
	% GDP	$ Per Capita
Prince Edward Island	14.8%	$2,019
Nova Scotia	13.0%	$2,190
Newfoundland	6.4%	$884
New Brunswick	7.9%	$1,295
Quebec	3.3%	$713
Ontario	3.8%	$1,002
Manitoba	5.5%	$1,082
Saskatchewan	3.8%	$698
Alberta	2.7%	$711
British Columbia	3.4%	$771
CANADA	4.2%	$985

Source: Statistics Canada Catalogue 13-213

The province with the highest degree of federal expenditures on goods and services per capita is Nova Scotia at $2,190. For Prince Edward Island the ratio of federal spending to Gross Domestic Product is the highest among the provinces at 14.8 per cent, but it is somewhat less per capita than Nova Scotia at $2,019.

Diagram 41

Federal Payroll
P.E.I., 1987



The largest part of federal expenditures takes the form of government payroll on Prince Edward Island as shown in Diagram 41. Statistics Canada estimates the total federal payroll to have been $103.9 million on Prince Edward Island in 1987. This represents 3,403 employees. The largest concentrations of federal employment on Prince Edward Island concern the Summerside airbase, which employed approximately 1,300 persons and the national headquarters of the Department of Veterans Affairs in Charlottetown. The latter operation has some 700 employees with an annual payroll of approximately $33 million. Other federal activities include the R.C.M.P., Canada Employment and Immigration, Department of Transport, the National Park Service, the Department of Agriculture, Department of Fisheries and Oceans and the Department of Industry, Science and Technology (Regional Development). In addition, the recently created Atlantic Canada Opportunities Agency is responsible for many varied regional development programs.

e. Concluding Comments

The high level of federal support to the Province, in the context of the small provincial economy, means that the federal programs have a considerable macroeconomic influence on the economy. Upswings and downswings in federal

spending on Prince Edward Island are one of the major determinants of upswings and downturns in the provincial economy.

The data suggest that federal transfers and direct activities have been a key determinant for the renewed economic growth of Prince Edward Island since the mid 1960's. Erosion of this support can have a serious negative effect on the Island economy and present indications of federal intentions do point to reduced federal support. Changes to the Unemployment Insurance Act are scheduled for 1990 and closure of the Summerside airbase is planned for 1990-1992. Federal support for EPF is also being reduced and federal development arrangements with the Province are being rephased.

While not discussed in this section, federal revenue measures also have an important geographic dimension. Low income, poorer regions, tend to pay less taxes per capita and per unit of income because of the structure of personal and corporate income taxes. Federal intentions to rely more heavily on consumer oriented taxes, and particularly the value added styled Goods and Services Tax, will again tend to impact on poorer provinces such as Prince Edward Island. They might also be harmful to tourist activity.

Federal restraint and tax reform measures pose serious challenges to the Prince Edward Island economy as the Province moves into the last decade of the Century. The federal government recently announced its decision to establish a federal facility in support of the Goods and Services Tax as a partial offset to the Summerside Base closure.

7. MACROECONOMICS OF THE PRINCE EDWARD ISLAND ECONOMY

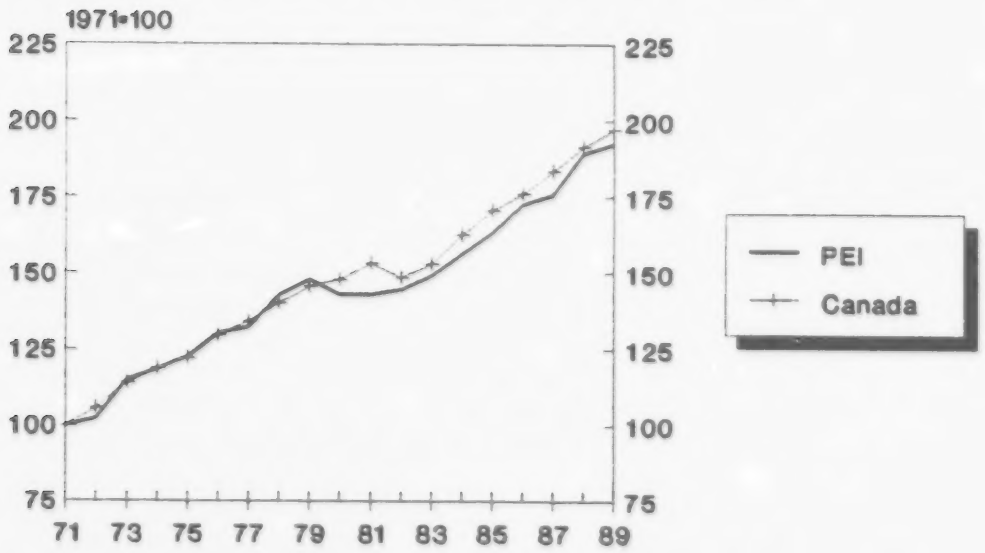
a. Introduction

Macroeconomics looks at broad measures of the economy such as provincial output (Gross Domestic Product), the level of prices and how they change over time, aggregate consumption, investment, and government spending. Employment and unemployment are also concerns of macroeconomics and have been discussed in Section 3 "Labour Force Trends". What determines these aggregates and how they respond to changing conditions are macroeconomic questions.

This section examines the macroeconomic forces at play over the past two decades. During this time period the Island's economy passed through three distinct stages. The first stage, from 1971 to 1979 was a period of rapid expansion, following many decades of relatively little aggregate change. The second stage was the economic downturn of the 1980-82 recession. High interest rates and escalating oil prices caused a protracted recession for the Island, more so than the national economy. The third stage, from the 1980-82 recession to the present, is characterized by renewed growth of the provincial economy.

Diagram 42

Real Gross Domestic Product
P.E.I. & Canada, 1971=100



Source: Conference Board of Canada

The three stages can be seen in Diagram 42 which displays constant dollar (or real) Gross Domestic Product for Canada and Prince Edward Island for the period 1971 to 1989. Gross Domestic Product measures total production of goods and services in the economy. In the first stage, both Prince Edward Island and Canada's real Gross Domestic Product grew rapidly, averaging annual growth of 5.0 and 4.8 per cent respectively for the years 1971 to 1979. This stage marked a significant improvement in the fortunes of the Province compared to earlier years. Table 21 shows the growth (at annual rates) of industrial sectors in the Prince Edward Island economy over the three stages.

Table 21: Growth of Real Gross Domestic Product at Annual Rates, Prince Edward Island, 1971-89

	1971-79	1979-82	1982-89
Agriculture	7.5%	5.1%	-2.7%
Fishing	-0.4%	7.1%	4.9%
Construction	5.8%	-5.7%	8.4%
Manufacturing	6.7%	-12.0%	3.6%
Utilities	3.0%	-8.8%	12.8%
Trans. & Comm.	2.8%	0.1%	5.4%
Trade	5.4%	-3.9%	4.0%
Finance (FIRE)	6.4%	-3.2%	5.2%
Services (C.B.P.S.)	2.6%	1.5%	5.7%
Public Admin & Defense	4.3%	4.9%	3.3%
Total Economy	5.0%	-0.8%	4.2%

Source: Conference Board of Canada

The strong expansion of economic activity on Prince Edward Island during the 1970's is related to sharp increases in government expenditures and major increases in agricultural and manufacturing output. These industry trends were discussed in Section 4 "Economic Structure of Prince Edward Island Today". Government expenditures in this period increased as result of the Comprehensive Development Plan, increased transfers to the provincial government, and an enhanced Unemployment Insurance program.

The 1980-82 recession in Prince Edward Island was a major setback for the Island economy. High interest rates, high oil prices, and the national downturn impacted severely upon the Island economy, as can be seen in Diagram 42. Whereas the national economy had a mild recession in 1980 and a more severe decline in 1982, for Prince Edward Island real Gross Domestic Product declined in 1980 and 1981, and showed slow growth in 1982. The economic downturn coupled with rapid growth in Western

Canada led to substantial net out-migration of people to other provinces of Canada. Many went to Alberta to seek their future in the oil boom of these years. This out-migration to Alberta peaked at 1,200 in 1980 and 1981, and has declined to between 300 and 400 migrants since those years. The population of Prince Edward Island actually declined from 122,800 in 1980 to 122,500 in 1981, and 122,400 in 1982.

Strong performances in the primary sectors of agriculture and fishing during 1981 and 1982 prevented the provincial economy from further declines in Gross Domestic Product, but the provincial economy was still in the doldrums in those years. During the 1980-82 recession, aside from increased output in the primary sectors, there was strong growth in public administration. This was due to the relocation of the federal Department of Veteran Affairs to Charlottetown. The services sector also expanded slowly as the increase in the non-commercial services sector (education, health and welfare) offset the declines in commercial activities. All other major sectors during this period were in decline.

Following the 1980-82 recession the Island economy has enjoyed a period of relatively strong economic growth. Prince Edward Island's real Gross Domestic Product growth over the 1982-89 period has averaged 4.2 per cent per year compared to 4.1 per cent for Canada. Economic growth in aggregate on Prince Edward Island over this period matched other Maritime provinces, but was significantly slower than Ontario. The lack of growth in agricultural production, which declined by 2.7 per cent on an annual basis over 1982 to 1989, was the only weak sector of the Island economy. In other measures, such as population, personal income, and employment growth, Prince Edward Island's recovery has generally been stronger than most provinces. Employment gains in Prince Edward Island of 3.1 per cent per year between 1982 and 1988, for example, were the strongest in Canada. Much of this growth has occurred in the services sector.

The two sectors with the strongest growth over the 1982-89 period appear to be utilities and construction. A change in methodology by Statistics Canada caused a break in the statistical series on Gross Domestic Product in the utilities sector. This has meant that Gross Domestic Product in utilities prior to 1983 was under-estimated, and the growth from 1983 to 1984 is over-estimated. From other sources of information the utilities sector most likely has shown growth since 1982 at about the overall provincial rate. Construction activity has increased sharply during the period 1982 to 1989 due to gains in both residential and non-residential construction. This was discussed in Section 4 "Economic Structure of Prince Edward Island Today".

During the period 1982-89 a large gain in Gross Domestic Product was attributable to the Community, Business, and Personal Services sector. This sector consists of a non-commercial component and commercial component, and while both increased it is particularly the latter that has done well in the recent recovery. Education, health and

welfare are the non-commercial activities and the average monthly employment in these sectors increased from 6,500 in 1983 to reach almost 9,000 by 1989. Public administration was also a factor in the Island's recovery from the 1980-82 recession. This included both increases in the provincial and federal government. In particular, the establishment of the head office of the Department of Veteran Affairs in Charlottetown took place over the 1980-85 period and this formed an important aspect of the recovery in the local economy.

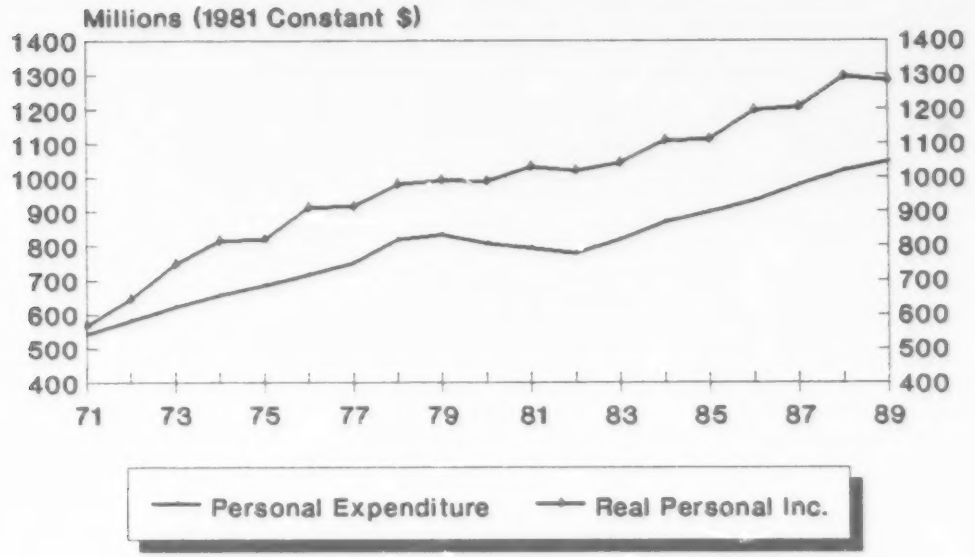
b. Components of Gross Provincial Expenditure

Gross Provincial Expenditures consist of total personal expenditures on goods and services, government expenditures on goods and services, gross capital formation by business and government, and exports less imports. The sum of these expenditures is identical to provincial Gross Domestic Product. The changes in these components explain, from a macroeconomic perspective, the economic growth of the provincial economy.

Personal expenditure on goods and services is the largest component of Gross Provincial Expenditure. Diagram 43 displays constant dollar expenditures and real personal income for Prince Edward Island over the period 1971 to 1989. As can be seen from the diagram, strong economic growth from 1971 to 1979 and again from 1983 to 1988 produced a steady upward trend in personal expenditure. Personal expenditure, in constant dollars, increased by 5.5 per cent per year between 1971 and 1979 and 4.3 per cent per year over the period 1982 to 1989. The rate of increase between 1971 and 1979 was somewhat faster than the growth in Gross Domestic Product. This is most likely the impact of increased government transfers to persons. Changes in the Unemployment Insurance Act and other transfer payments added to increased personal incomes thereby sustaining increases in personal expenditure.

Diagram 43

Personal Expenditure on Goods & Services
Prince Edward Island, 1971-89

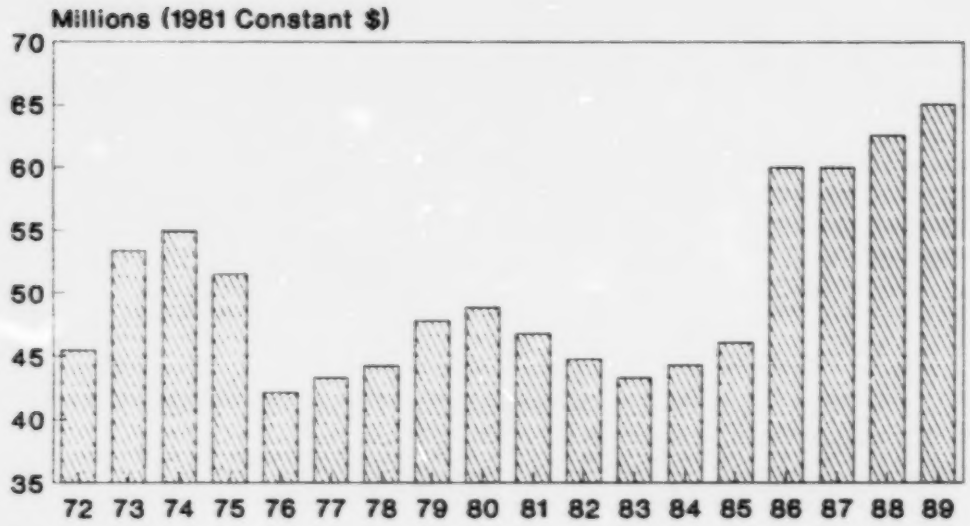


Source: Conference Board of Canada & Statistics Canada 13-213

The decline in personal expenditure during the 1980-82 recession was significant, with a 2.3 per cent annual rate of decline between 1979 and 1982. Most of this decrease occurred in the purchases of semi-durable and durable goods. High interest rates, slow gains in personal income, and depressed consumer confidence contributed to the declines in these expenditure categories. New motor vehicle sales, for example, declined from a peak of 6,553 in 1979 to 3,755 in 1982. Another factor was the decline in housing starts from over 1,200 in 1978 to 203 in 1981, which depressed the purchases of household durable goods.

Diagram 44

Tourist Expenditures
P.E.I., 1972-89

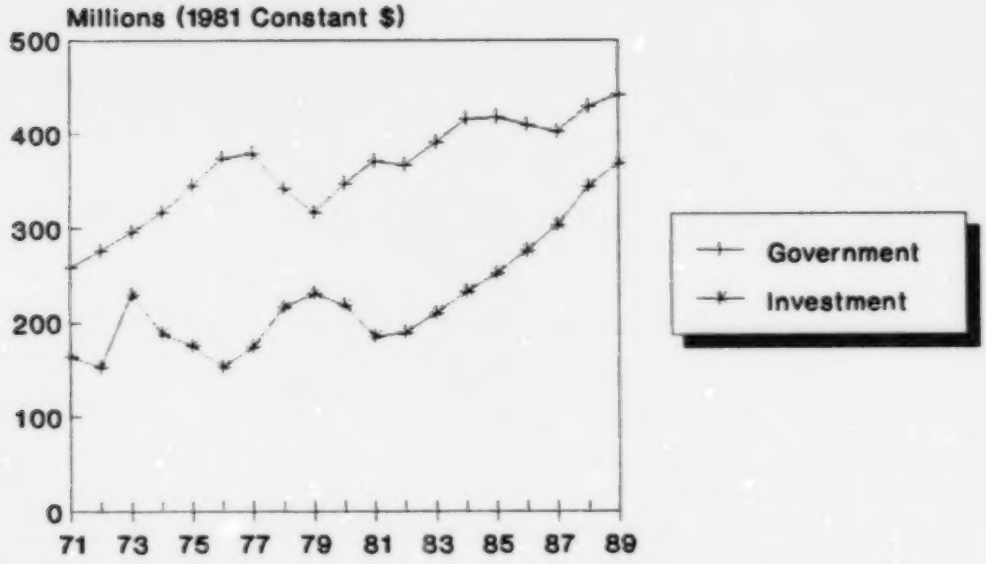


Source: P.E.I. Department of Tourism and Parks

Tourist expenditure, which typically forms six per cent of personal expenditure on good and services, has also been a factor in the swings in the provincial economy. Diagram 44 shows the constant dollar value of tourist expenditures on Prince Edward Island over the period 1972 to 1989. Early in the 1970's tourist expenditures contributed to the overall healthy growth of the Island economy. A decline in constant dollar tourist expenditures during the 1980-82 recession was also an important factor explaining declining personal expenditure in those years. This contributed to the weak provincial economy throughout the early 1980's. Tourist spending did not recover to pre-recession levels until 1986, but it has expanded rapidly in the past few years.

Diagram 45

Government Expend. on Goods and Services & Fixed Investment, P.E.I., 1971-89



Source: Statistics Canada
Catalogue 13-213

Government expenditure appears to be a major factor impacting on growth and decline of the Provincial economy over the period 1971 to 1989. Diagram 45, displaying constant dollar government expenditure on goods and services and fixed investment, shows that the pattern of government expenditure has followed the economic prospects of the Province over this period. The periods of growth in the Island's economy in the 1970's and since 1982 have both coincided with increased government expenditure on goods and services. This trend was also apparent in the 1980-82 recession. The sharp drop in government expenditure following 1979 on Prince Edward Island was due in large measure to the federal government's major reduction in support of the Comprehensive Development Plan. The direct implication for the Province involved a sharp reduction in the number of provincial civil servants involved in the implementation of the Plan's programs.

Government expenditures in constant dollars since the 1980-82 recession have increased sharply as can be seen in Diagram 45. This has been partially the result of the transfer of the Department of Veteran Affairs to Charlottetown, although since this move was completed federal government expenditures have declined in view of federal govern-

ment restraint measures. The provincial government has expanded over this period with employment increasing from 4,500 in 1983 to reach 4,900 by 1988.

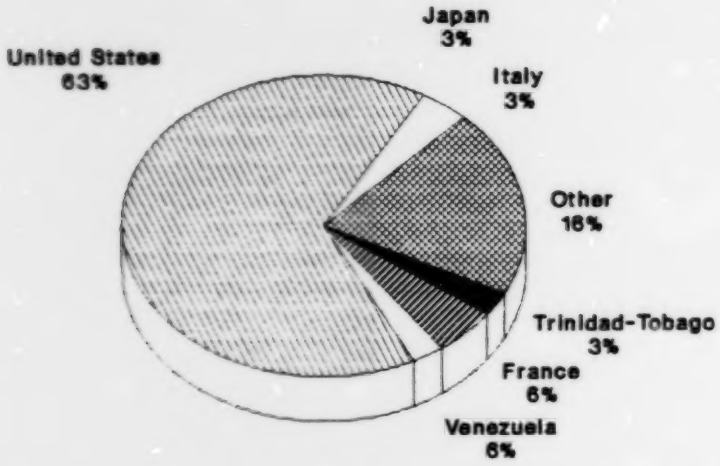
Capital expenditures are an important indicator of the level of activity and health of the provincial economy. Investment expenditures, also shown in Diagram 45, include residential construction, government investment, non-residential construction, and purchases of machinery and equipment. Housing construction forms about one-third of construction activity on Prince Edward Island and has been very volatile. During periods of strong economic growth on the Island the resulting net in-migration has led to increased demand for housing. This occurred during the early 1970's, 1978 and 1979 and in the period 1986 to 1988. This has a tendency to accentuate booms in business activity as housing construction leads to further retail sales to furnish new homes. However during the 1980-82 recession, when housing construction declined to one-fifth of the 1979 level, the recession was deepened on the Island, adding to the problems of increased energy costs, high interest rates and a declining population.

Non-residential construction on Prince Edward Island is dominated by government departments and institutions and appears to be more stable than residential construction.

The sale of Island products off the Island should also be considered under the topic of macroeconomics. Net exports, which includes both inter-provincial and international trade flows, totaled minus $660 million in 1988 on a provincial economic accounts basis. Net exports is defined as exports minus imports, so this figure indicates that the Island economy in 1988 imported $660 million of goods and services more than it exported. This negative balance of trade is sustained through federal transfers to the lower levels of government and persons, and to a small extent, tourism.

Diagram 46

International Exports from P.E.I. by Principal Trading Areas, 1989

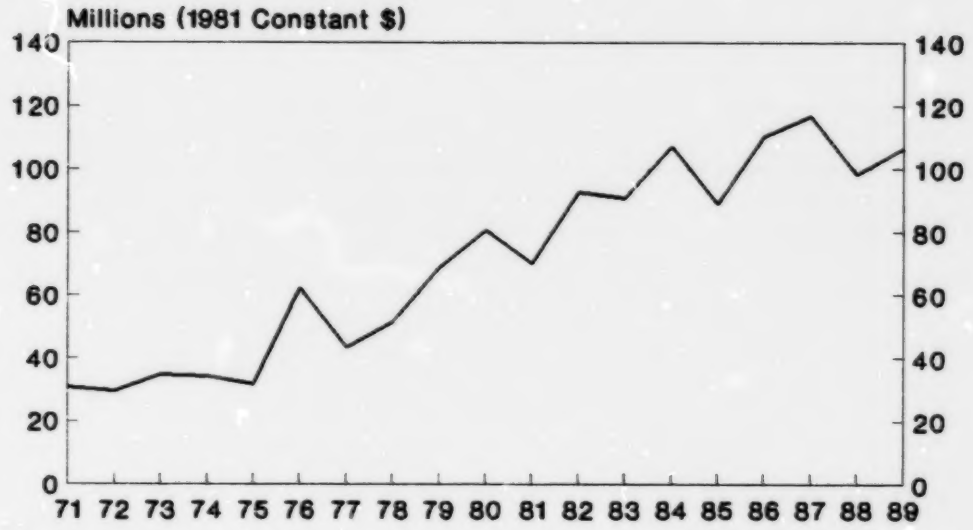


Source: Statistics Canada
Catalogue 65-004

Diagram 46 displays international exports from Prince Edward Island in 1989 by country of destination. The total value of international exports in 1989 from the Island was $161.2 million. The United States was the destination of 63 per cent of these exports. These exports consisted primarily of fish and vegetable products. Other destinations of the Island's exports include Venezuela and Trinidad/Tobago to which seed potatoes are exported, and France and Japan to which mostly fish products are exported.

Diagram 47

International Exports from Prince Edward Island, 1971-89



Source: Statistics Canada
Catalogue 65-003

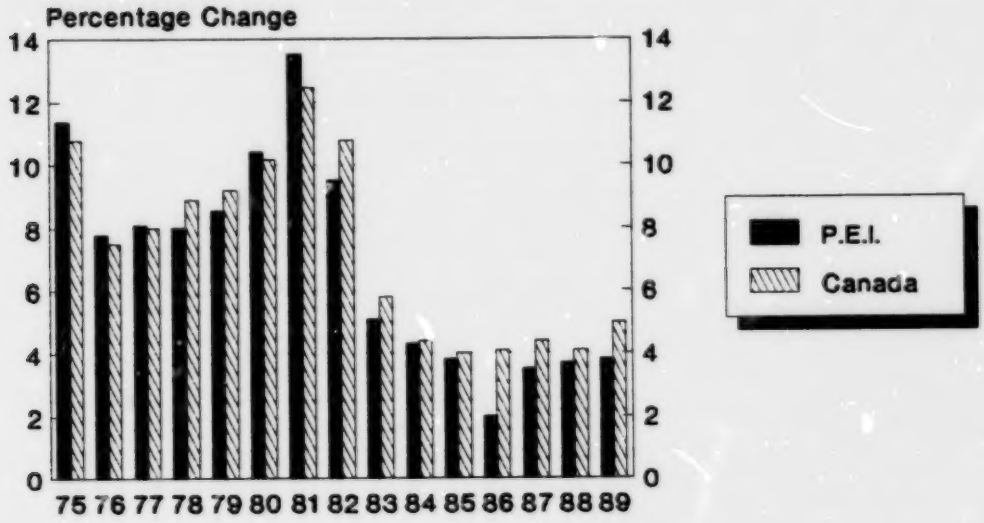
Prince Edward Island has experienced major growth in the constant dollar value of international exports since the late 1970's. Diagram 47 shows the 1981 constant dollar value of international exports from Prince Edward Island to other countries. There is limited information available on inter-provincial exports as the gross value of trade between Prince Edward Island and other provinces is not recorded on an annual basis. The trade data on interprovincial exports available for 1979 and 1984 indicates a significant re-orientation of trade from sales to Canada to other countries, principally the United States. Increased exports of agricultural products account for most of the increased international exports during the late 1970's. The decline in 1988 is partially a result of a change by Statistics Canada in the system of reporting international trade statistics.

c. Inflation

Inflation usually refers to the percentage change in the Consumer Price Index as computed monthly by Statistics Canada. There are a wide variety of other inflation measures that could be considered and have been used elsewhere in this "Economic Overview" when constructing constant dollar estimates of expenditures or output.

Diagram 48

Percentage Change in CPI
P.E.I. & Canada, 1975-89

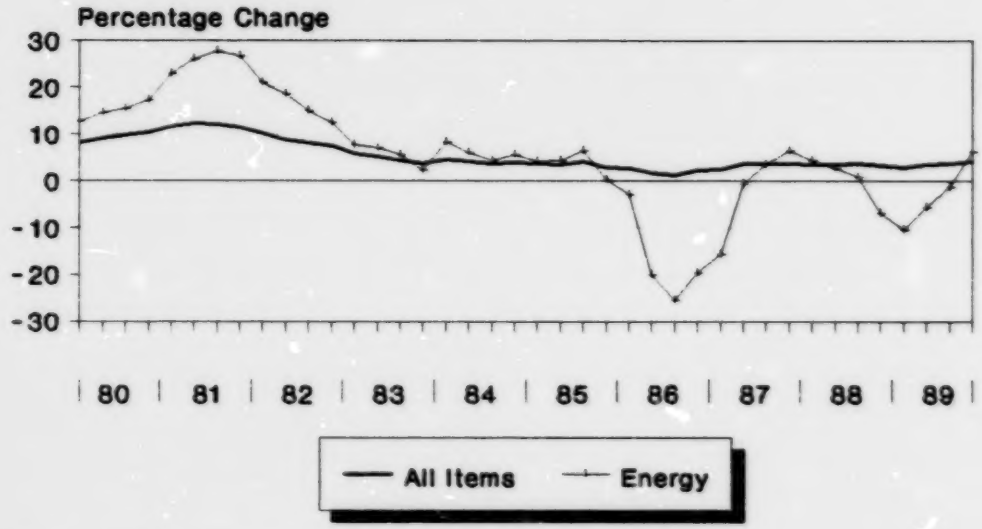


Source: Statistics Canada
Catalogue 62-001

Diagram 48 shows the behavior of the inflation rate, as measured by the percentage change in the Consumer Price Index (CPI), for Canada and Prince Edward Island over the period 1975 to 1989. The Canadian inflation rate has varied from a low of 4.0 per cent in 1985 to a high of 12.5 per cent in 1981. The Charlottetown-Summerside inflation rate has generally been subjected to the same pressures as at the national level. The high inflation rates in 1975 and again in 1980 to 1982 were associated with major shocks to the world price of oil and foodstuffs. The decline in inflation in the years 1983 to 1985 was in response to the national recession in 1982, and a decline in both food and energy prices. Energy prices have usually accounted for the difference between the Charlottetown-Summerside and Canadian inflation rate. While Prince Edward Island suffered from higher inflation rates in 1980 and 1981, the Island had a lower rate of inflation when oil prices were declining in the late 1980's.

Diagram 49

Change in Consumer Price Index
Ch'town-S'side, 1980-89



Source: Statistics Canada
Catalogue 62-001

Diagram 49 displays the inflation rate for the Charlottetown-Summerside All-Items index and the energy index. One can see that the percentage changes in the energy index have been erratic. Price increases for energy on the Island continued at a high rate throughout the period 1980 to 1982. The Prince Edward Island economy is particularly vulnerable to increased oil prices because the Province is dependent upon oil products for transportation, heating, and for electrical generation. Without access to natural gas or hydroelectric power, the Province bore the full cost of increased crude oil prices during the early 1980's.

By 1983 the extraordinary increase in energy prices on Prince Edward Island slowed, although they were generally higher than the overall (All-Items) rate of inflation. In recent years the price of crude oil has dropped significantly and the energy index in 1986 declined by 14.1 per cent. This reduced the overall rate of inflation down to 2.0 per cent in that year.

d. Concluding Comments

The above analysis shows that the Prince Edward Island economy is vulnerable to such events as sharp increases in oil prices, changes in federal government expenditure policies and national economic conditions generally. Such was the case in the 1980-82 recession. The primary sectors of agriculture and fishing appear to have been, to an extent, independent of national macroeconomic conditions. But these two sectors of the provincial economy were not able to sustain provincial economic growth during the 1980-82 recession despite strong expansion of the primary industries at that time.

Clearly the Prince Edward Island economy has benefited from its movement into national and international markets, but it remains fragile and subject to a wide range of external forces. This is probably inevitable for such a small economy in the world today.

8. PRINCE EDWARD ISLAND AT THE END OF THE TWENTIETH CENTURY

As the Province moves into the final decade of the twentieth Century, to most casual observers the Island still appears to be a rural, farming community that might seem to have more or less remained unchanged since the end of the nineteenth Century. The stories of Anne of Green Gables by Lucy Maude Montgomery depict a period of rural charm which many still relate to on rural Prince Edward Island. Yet Prince Edward Island has changed significantly. In fact, during the "Anne Years", the Island was undergoing a wrenching transformation.

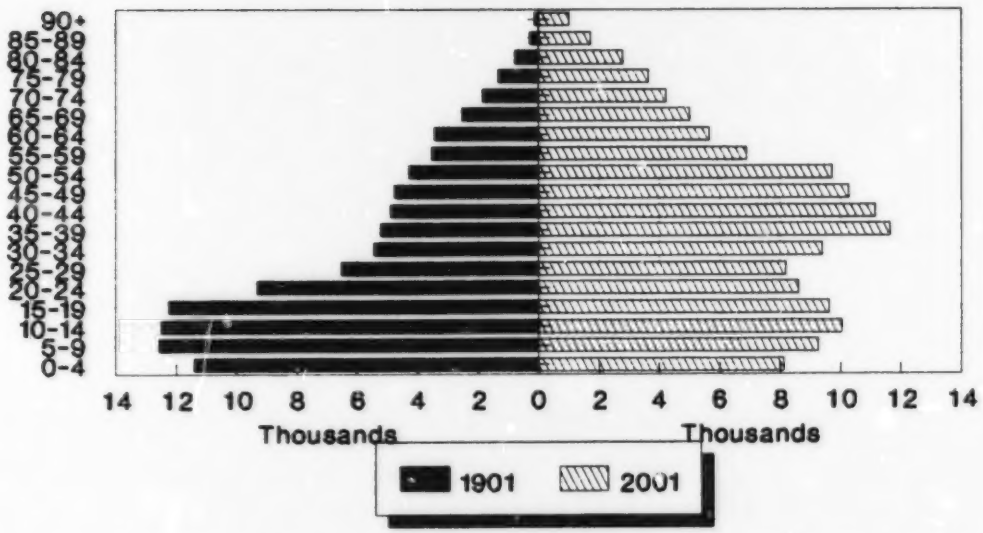
The population fell from 109,000 in 1881 to 86,000 in 1924 as the rural population migrated to other parts of Canada. It regained its previous size only in 1964. Steady growth since the Second World War largely stemmed from the development of Charlottetown as a small metropolitan area, and Summerside as a military establishment. By 1986, 46 per cent of the Island's population lived in and around Charlottetown and another 12.5 per cent in Summerside and vicinity. Many rural parts of the Island continue to decline in size and none have recovered the numbers of people that were there in the nineteenth Century. The proportion of Islanders living on farms in 1986 was only 8 per cent, compared to 85 per cent in 1881.

The Island's population was also much younger in those early days. Large farm families meant that 32 per cent of the population was less than 15 years of age. By contrast, families today have become extremely small. Both husbands and wives now commonly participate in the labour force and the birth rate has fallen to low levels. At the same time, increasing numbers are living to an old age. Consequently, today only 23 per cent of the Island's population is less than 15 years of age while nearly 13 per cent are over 65 years.

Diagram 50 contrasts the age distribution of the Island's population in 1901 with the projection for 2001.

Diagram 50

Population Distribution
P.E.I., 1901 & 2001



The loss of population from net out migration to other provinces reversed in the 1970's as new employment opportunities sprang up on Prince Edward Island. Renewed population growth brought with it rapid expansion of the suburbs around Charlottetown and Summerside. This growth has slowed in the 1980's but the drastic loss of population to out-migration appears to have been stemmed in the closing decades of the Century. The suburban developments around Charlottetown continue to dominate demographic trends.

The type of work available on Prince Edward Island changed markedly during this Century. Farming, and to a lesser extent fishing dominated Island lives at the turn of the Century. Today, approximately 70 per cent of the Island economy is involved in the production of services such as retail trade, education, health services, public administration, restaurants, and hotels. Only 15 per cent of the Island labour force was employed in agriculture and fishing in 1986.

Growth of the Island's labour force has largely been oriented to work for females. For much of the Century, the male labour force witnessed no growth, though this has revived since the late 1960's. But female labour force participation has increased dramatically and accounts for the bulk of increased employment. These jobs are largely

in the faster growing service sectors, though increased female employment can be found in all occupations.

Notwithstanding the expanded work opportunities of recent decades, the Island's unemployment rate has remained persistently well above the national level. Information from Unemployment Insurance statistics indicates that the rural parts of the Province have extremely high rates of unemployment, particularly in the winter months. The rural economy, with its continuing dependence on seasonal primary and processing activities, is highly dependent upon Unemployment Insurance benefits. These areas also tend to have lower incomes than the urban parts of the Province.

The general population movement to the more urban-oriented service sectors has lessened dependence on the vagaries of the farming and fishing sectors. Personal income per capita in the 1920's was about 45 per cent of the national average, and it was subject to extreme annual swings, given the high reliance upon farming and fishing. Earnings per capita today are about 60 per cent of the national average. Incomes are supplemented by transfers such as Unemployment Insurance benefits and Old Age Security. The prevalence of part-year work and relatively low rates of pay keep Islanders' incomes significantly below the national average. By 1988, personal income per capita was 74.2 per cent of the national average and its swings have subsided.

Reliance on financial support from the federal government for Prince Edward Island is in aggregate the highest of any province. The most significant aspects of this support are Equalization payments to the provincial government, Unemployment Insurance for the unemployed, and Old Age Security for the elderly. Support for farmers, the ferry service, and other government programs is also at a high level. Also, the federal government moved the head office of the Department of Veterans Affairs to Charlottetown in the 1980's and has maintained a large military base in Summerside since the Second World War.

The operation of government functions at the federal, provincial, and municipal levels, plus support for schools, the University, the health care system, and Holland College have become major contributors to the Island economy. In addition, tourist visitation is a key summer industry, which adds to dollar earnings of the Province. The export of farm and fish products is a thriving activity as the primary producing sectors have become more commercially oriented. Those sectors are now highly capital intensive, with consequent reductions in the need for labour.

While the Island economy has become more commercially oriented the evidence is that it now tracks national economic trends more closely than in earlier times. Interest rates and oil prices impact on Prince Edward Island significantly. In addition, the Island is highly vulnerable to federal program changes. The pending closure of the CFB Summerside airbase, scheduled for early 1992, bears witness to that.

Looking ahead, the prospect of a fixed link (either bridge or tunnel) to the mainland offers challenges and opportunities. Enlarged potato production emanating from the construction of new processing plants is also before us. The establishment of a tax centre in Summerside will partially offset the base closing.

Clearly the Island has undergone major changes since the times of Anne of Green Gables. Yet it has been able to retain the charm of the rural way of life and has maintained its picturesque, pastoral appearance throughout. There are few Islanders who would want to see these things altered. The fundamental challenge is to retain these attributes in the coming Century while adapting to the forces that change invariably brings.

This report is intended to provide a broad appreciation of the Island economy as it has changed through the twentieth Century, and we hope it will be useful for those with an interest in learning about the economic condition of Prince Edward Island as the Century draws to a close.